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UNITED STATES DISTRICT COURT
 NORTHERN DISTRICT OF CALIFORNIA
 SAN FRANCISCO DIVISION

ANDREW S. BUSHKIN, derivatively on) Case No.
behalf of PG&E CORPORATION)
and PACIFIC GAS & ELECTRIC)
COMPANY,) VERIFIED SHAREHOLDER
Plaintiff,) DERIVATIVE COMPLAINT FOR
v.) BREACHES OF FIDUCIARY DUTIES,
BARBARA L. RAMBO, LEWIS CHEW,) WASTE OF CORPORATE ASSETS,
C. LEE COX, PETER A. DARBEE,) UNJUST ENRICHMENT, BREACH OF
ANTHONY F. EARLEY, JR., FRED J.) THE DUTY OF HONEST SERVICES,
FOWLER, KENT M. HARVEY,) CONSPIRACY TO BREACH FIDUCIARY
MARYELLEN C. HERRINGER,) DUTIES, AND AIDING AND ABETTING
CHRISTOPHER P. JOHNS, WILLIAM) BREACHES OF FIDUCIARY DUTIES
D. HAYES, GEISHA J. WILLIAMS,)
NICK STAVROPOULOS, RICHARD C.)
KELLY, ROGER H. KIMMEL, DAVID)
M. LAWRENCE, RICHARD A.)
MESERVE, FORREST E. MILLER,)
DINYAR B. MISTRY, ROSENDO) <u>DEMAND FOR JURY TRIAL</u>
PARRA, ANNE SHEN SMITH, and)
BARRY LAWSON WILLIAMS,)
Defendants,)
and)
PG&E CORPORATION, a California)
corporation, and PACIFIC GAS &)
ELECTRIC COMPANY, a California)
corporation,)
Nominal Defendants.))

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1 Plaintiff Andrew Bushkin (“Plaintiff”), derivatively on behalf of Pacific Gas &
 2 Electric Corporation and Pacific Gas & Electric Company (hereafter “PG&E” or the
 3 “Company”), submits this Verified Shareholder Derivative Complaint against the
 4 members of the companies’ Board of Directors (the “Board”) (collectively, the
 5 “Individual Defendants”) for breaches of their fiduciary duties, gross mismanagement,
 6 abuse of control, unjust enrichment, and violation of the federal proxy laws. Plaintiff
 7 makes the following allegations, except as to allegations pertaining to Plaintiff (which
 8 are based on personal knowledge), based on his investigation and the investigation of
 9 his counsel, including a review of legal and regulatory filings, press releases, analyst
 10 and media reports about PG&E, the indictment dated April 1, 2014 and superseding
 11 indictment dated July 30, 2014 filed against Pacific Gas & Electric Company by a
 12 grand jury in San Francisco, the court records and filings in *U.S.A. v. Pacific Gas &*
 13 *Electric Co.*, Case No. CR 14-00175-THE (N.D. Cal.), and other public statements
 14 issued by the Company. Plaintiff believes that substantial additional evidentiary
 15 support will exist for the allegations set forth herein after a reasonable opportunity for
 16 discovery.

17 In support of these derivative claims, Plaintiff alleges as follows:

18 I. NATURE OF THE ACTION

19 1. This is a “double derivative” shareholder derivative action to remedy over
 20 \$2 billion in damages the Company has suffered due to the wrongdoing committed by
 21 PG&E’s directors and officers between January 1, 2003 and the present (the “Relevant
 22 Period”).

23 2. Pacific Gas & Electric Corporation operates as the holding company for
 24 Pacific Gas & Electric Company, a provider of electricity and natural gas in Northern
 25 and Central California. Both companies have their own board of directors, but the
 26 boards are comprised of the same individuals, except for Defendant Christopher P.
 27 Johns, who is a director of Pacific Gas & Electric Company but not Pacific Gas &
 28 Electric Corp.

1 3. Both companies are California corporations and thus California law
2 applies to the claims asserted in this lawsuit.

3 4. During the Relevant Time Period, the Board of Directors and other
4 executive officers of the companies breached their fiduciary duties of candor, loyalty,
5 good faith and care to the companies and their shareholders, resulting in billions of
6 dollars of damages to the companies. The damages continue to mount since penalties
7 imposed on the Company restrict PG&E's ability to effectuate rate hikes related to the
8 wrongdoing.

9 5. On July 30, 2014, a Superseding Indictment was returned against Pacific
10 Gas & Electric Company related to violations of law related to a deadly 2010 gas
11 explosion in San Bruno, California (the "San Bruno Explosion") that killed eight
12 people, injured 58 more, and caused over \$500 million in damages to property owners.

13 6. On April 9, 2015, the CPUC approved final decisions in three separate
14 investigations that had been brought against PG&E relating to (1) PG&E's safety
15 record-keeping for its natural gas transmission system, (2) PG&E's operation of its
16 natural gas transmission pipeline system in or near locations of higher population
17 density, and (3) PG&E's pipeline installation, integrity management, record-keeping
18 and other operational practices, and other events or courses of conduct, that could
19 have led to or contributed to the natural gas explosion that occurred in the City of San
20 Bruno, California on September 9, 2010. A decision was issued in each investigative
21 proceeding to determine the violations that the Utility committed. The CPUC also
22 approved a fourth decision (the "Penalty Decision") which imposed penalties on PG&E
23 totaling \$1.6 billion comprised of: (1) a \$300 million fine paid to the State General
24 Fund, (2) a one-time \$400 million bill credit to the Utility's natural gas customers, (3)
25 \$850 million to fund future pipeline safety projects and programs, and (4) remedial
26 measures that the CPUC estimates will cost the Utility at least \$50 million. The
27 Penalty Decision requires that at least \$689 million of the \$850 million be allocated to
28 capital expenditures and that the Utility be precluded from including these capital

1 costs in rate base. The remainder will be allocated to safety-related expenses.

2 7. The Individual Defendants caused the Company to engage in unlawful
3 and criminal conduct which has already damaged the Company by over \$2.2 billion in
4 damages and fines relating to the San Bruno Explosion, as follows:

5 **\$1.6 billion in fines** - as indicated *supra*, these fines are comprised of \$300
6 million paid to California's State General Fund, a one-time \$400 million
7 credit to the Company's natural gas customers, \$850 million to fund
8 future pipeline safety projects, and remedial measures that the PUC
9 estimates will cost PG&E at least \$50 million;

10 **\$620 million in compensation** paid to settle damages claims relating to the
11 explosion, comprised of approximately \$500 million to the victims and
12 families of the San Bruno accident, \$50 million to the City of San Bruno
13 for costs related to recovery, and \$70 million to support the city's and
14 community's recovery efforts.¹

15 8. In addition, as the Company has admitted in filings with the U.S.
16 Securities and Exchange Commission ("SEC"), PG&E faces a potential maximum
17 alternative minimum fine **of another \$1.13 billion** for the criminal charges in the
18 Superseding Indictment.² The criminal trial is scheduled to begin on March 8, 2016 in
19 San Francisco.

20 9. After the San Bruno Explosion, the Individual Defendants caused PG&E
21 to obstruct the National Transportation & Safety Board's investigation of the
22 explosion and PG&E's role in the explosion. As a result, the Superseding Indictment

23 ¹ See July 29, 2014 PG&E press release entitled "As Government Recasts Case,
24 PG&E Reiterates Commitment to Safety and Underscores Its Position That Federal
25 Charges Are Not Merited," available at [http://PG&E.com/about/newsroom/
26 newsreleases / 20140729/ as_ government_ recasts_ case_ PG&E_ reiterates_
27 commitment_ to_ safety_ and_ underscores_
its_position_that_federal_charges_are_not_merited.shtml](http://PG&E.com/about/newsroom/newsreleases/20140729/as_government_recasts_case_PG&E_reiterates_commitment_to_safety_and_underscores_its_position_that_federal_charges_are_not_merited.shtml), last visited February 10,
2016.

28 ² See PG&E's Q3 2015 Form 10-Q filed with the SEC on October 28, 2015, at p. 42.

1 added another criminal charge to the indictment for violation of 18 U.S.C. §1505 -
2 Obstruction of the NTSB's Investigation.

3 10. After the San Bruno Explosion, the Individual Defendants also caused
4 PG&E to engage in improper *ex parte* communications with the California Public
5 Utility Commission ("PUC") in an effort to improperly influence various proceedings
6 involving the Company. This misconduct has resulted in two separate investigations
7 of the Company by the U.S. Attorneys' Office in San Francisco and the California
8 Attorney General's Office.

9 11. The Company is also being investigated by the U.S. Attorney's Office with
10 respect to a 2014 explosion in Carmel, CA.

11 12. The Individual Defendants have also willfully refused to modify the
12 Company's corporate governance principles to protect the Company from further
13 harm. After the Company was indicted by the grand jury in 2014, a shareholder
14 submitted a proposal in the Company's 2015 Proxy which asked shareholders to vote
15 in favor of separating the roles of Chairman and CEO at the Company. The proposal
16 specifically noted that an Independent Chairman of the Board was necessary to ensure
17 the Company's compliance with safety laws and regulations.³ The Defendants⁴
18 opposed this proposal in the proxy, falsely stating that the proposal was allegedly
19 unnecessary because PG&E's corporate governance policies were already sufficiently
20

21 ³ The shareholder proxy proposal stated that "PG&E was charged with 12 pipeline
22 safety violations by the U.S. government for a 2010 natural gas explosion that killed 8
23 people and left a crater the size of a house. The grand jury indictment charged PG&E
24 with knowingly and willfully violating the Natural Gas Pipeline Safety Act by failing to
25 test and assess unstable pipelines to determine whether they could fail. PG&E was also
26 charged with keeping incomplete and inaccurate records about the pipeline that exploded.
PG&E was also flagged for its failure to utilize an environmental management system or
to seek International Organization for Standardization 14001 Certification for some or all
of its operations."

27 ⁴ On March 25, 2015, Defendants Chew, Fowler, Kelly, Meserve, Parra, Smith,
28 Johns, Earley, Herringer, Kimmel, Rambo and Williams approved the filing of PG&E's
and PG&E Corp.'s joint proxy statement with the SEC.

1 robust and adequate to address the wrongdoing that had occurred. The Defendants
2 caused the following false statement to be included in the 2015 Proxy:

- 3 • It is in the best interests of the Corporation and its
4 shareholders to have a flexible rule regarding which directors
5 may serve as Chairman.
- 6 • PG&E Corporation's strong corporate governance practices -
7 including the requirement of an independent lead director with
8 specified duties - address the proponent's concern that the
Board cannot properly oversee the CEO if the CEO also serves
as Chairman.

9 13. This statement was false and misleading, as PG&E's corporate
10 governance principles were not "strong" or sufficient to oversee the CEO and ensure
11 the Company's compliance with applicable laws and regulations. Specifically, the
12 Individual Defendants knew that the Company's corporate governance principles were
13 under scrutiny by federal and state regulators for material deficiencies. Indeed, just
14 ten months later, PG&E disclosed in its Q3 2015 Form 10Q that: "On August 27,
15 2015, the CPUC began a formal investigation into whether the organizational culture
16 and governance of PG&E Corporation and the Utility prioritize safety and adequately
17 direct resources to promote accountability and achieve safety goals and standards. The
18 CPUC directed the SED to evaluate the Utility's and PG&E Corporation's
19 organizational culture, governance, policies, practices, and accountability metrics in
20 relation to the Utility's record of operations, including its record of safety incidents.
21 The CPUC authorized the SED to engage a consultant to assist in the SED's
22 investigation and the preparation of a report containing the SED's assessment."

23 14. Thus, in an effort to protect their own jobs and avoid election of an
24 independent Board Chairman, the Individual Defendants violated their fiduciary
25 duties of candor and loyalty by causing the Company to file a false and misleading
26 proxy statement.

27 15. The Individual Defendants also caused the Company to violate applicable
28 record-keeping requirements with respect to its gas lines, subjecting the Company to

1 further potential liability.

2 16. Indeed, former PG&E employees have testified that PG&E Management
3 instructed them to destroy documents pertaining to the San Bruno explosion. In its
4 Pre-Trial Conference Statement filed on February 22, 2016, the government indicated
5 that it will call former PG&E employee Leslie McNiece as a witness at the criminal
6 trial set to commence on March 22, 2016. McNiece has testified at deposition that
7 management ordered her to destroy documents and that she found a tell-tale pre-blast
8 analysis of the relevant pipeline in the garbage at PG&E. McNiece reported to
9 Defendant Christopher P. Johns, President of San Diego Gas & Electric Company and
10 a member of its Board of Directors. Among other things, McNiece was hired after the
11 San Bruno explosion to help clean up PG&E's deficient record-keeping system. She
12 prepared a new recordkeeping policy and presented it to management, but was told by
13 Defendant Johns that PG&E would not approve that policy. McNiece was thereafter
14 laid off in 2014.

15 17. The billions of dollars in damages to PG&E were caused by the Individual
16 Defendants' breaches of fiduciary duties and self-dealing. Instead of spending
17 necessary money on pipeline safety improvements, the Individual Defendants caused
18 the Company to pay themselves lavish compensation and bonuses. ***The CPUC found***
19 ***that PG&E diverted more than \$100 million in gas safety and operations***
20 ***money to other uses.*** From 1999 to 2010, a CPUC audit determined that PG&E
21 regularly failed to use all the money collected to fix and maintain small gas distribution
22 lines that deliver natural gas to homes and businesses. The CPUC audit found that
23 ineffective executive management caused the company to take money that was
24 specifically earmarked for safety and to spend it elsewhere.

25 18. Despite the fact that PG&E is a public utility, the Individual Defendants
26 paid themselves lavishly during the Relevant Period. Defendant Johns, who served as
27 the President of Pacific Gas & Electric Company while the Company obstructed the
28 NTSB investigation and was indicted, earned over \$6 million in 2014 alone.

1 Defendant Earley, the CEO of PG&E Corp., earned almost twice as much in 2014 –
2 \$11.6 million. Defendant Darbee, who will be called by the United States of America
3 as a witness at the criminal trial, earned \$10.5 million as the CEO of PG&E Corp. in
4 2009, the year before the San Bruno explosion. In short, the Individual Defendants
5 were handsomely rewarded despite their faithless stewardship of PG&E, which to-
6 date has cost the Company over \$2.2 billion in damages.

7 19. Defendants' conduct has also caused severe reputational damage to the
8 Company and has had a severe negative effect on the Company's operations,
9 profitability, and earnings per share. From September 30, 2014 to September 30,
10 2015, the Company's net income plummeted from \$810 million to \$310 million.

11 20. The Department of Justice's criminal trial against the Company is set to
12 begin March 22, 2016.

13 21. On February 18, 2016, PG&E filed its Annual Report on Form 10-K with
14 the SEC. In the Annual Report, PG&E outlined the severe additional damage to the
15 Company which may occur as a result of the criminal trial:

16 22. "[PG&E] is facing federal criminal charges alleging that the Utility
17 knowingly and willfully violated minimum safety standards under the Natural Gas
18 Pipeline Safety Act and alleging that the Utility illegally obstructed the NTSB's
19 investigation into the cause of the San Bruno accident that occurred on September 9,
20 2010. The maximum statutory fine for each felony count is \$500,000, for potential
21 total fines of \$6.5 million. The federal prosecutor also seeks to impose an alternative
22 fine which could total approximately \$562 million, based on allegations that the
23 Utility derived gross gains of approximately \$281 million. The trial currently is
24 scheduled to begin on March 22, 2016.

25 23. "PG&E Corporation and the Utility have not recorded any charges for
26 potential criminal fines in their consolidated financial statements at December 31,
27 2015. If the Utility is convicted and a fine is imposed, PG&E Corporation and the
28 Utility will record charges when required in accordance with GAAP. *The Utility also*

1 *could incur material costs, not recoverable through rates, to implement remedial*
 2 *measures that may be imposed by the court, such as a requirement that the Utility's*
 3 *natural gas operations be supervised by a third-party monitor. The Utility could also be*
 4 *suspended or debarred from entering into federal procurement and non-procurement*
 5 *contracts and programs."*

6 **II. JURISDICTION AND VENUE**

7 24. Jurisdiction is conferred by 28 U.S.C. § 1332. Complete diversity among
 8 the parties exists and the amount in controversy exceeds \$75,000, exclusive of interest
 9 and costs. In addition, Plaintiff asserts a claim under §14(a) of the Exchange Act, 15
 10 U.S.C. §78n(a), and SEC regulation 14a-9 promulgated thereunder. Jurisdiction is
 11 conferred by the Exchange Act.

12 25. This Court has jurisdiction over each defendant named herein because
 13 each defendant is either a corporation that conducts business in and maintains
 14 operations in this District, or is an individual who has sufficient minimum contacts
 15 with this District to render the exercise of jurisdiction by the District courts
 16 permissible under traditional notions of fair play and substantial justice.

17 26. Venue is proper in this Court in accordance with 28 U.S.C. § 1391(a)
 18 because: (i) PG&E maintains its principal place of business in this District; (ii) one or
 19 more of the defendants either resides in or maintains executive offices in the District;
 20 (iii) a substantial portion of the transactions and wrongs complained of herein,
 21 including the defendant's primary participation in the wrongful acts detailed herein,
 22 and aiding and abetting and conspiracy in violation of fiduciary duties owed to PG&E,
 23 occurred in this District; and (iv) defendants have received substantial compensation
 24 in this District by doing business here and engaging in numerous activities that had
 25 an effect in this District.

26 **III. INTRADISTRICT ASSIGNMENT**

27 27. This action is properly assigned to the San Francisco division of this
 28 Court.

IV. THE PARTIES

A. Plaintiff

28. Plaintiff Andrew S. Bushkin is a shareholder of PG&E and has continuously been a shareholder of PG&E at all relevant times. Plaintiff acquired stock in Pacific Gas & Electric Company in approximately 1984, which stock was then converted into common stock of PG&E Corporation in approximately 1997, when PG&E Corporation became the holding company for Pacific Gas & Electric Company. Plaintiff is a Trustee of the Andrew S. and Patricia A. Bushkin Trust, U/A DTD 4/12/95, in whose name the stock has been held since 1995. Plaintiff is a citizen of Washington.

B. Nominal Defendants

29. Nominal Defendant PG&E Corporation is a California corporation with principal executive offices located at 77 Beale Street, P.O. Box 770000, San Francisco, California. PG&E is a holding company that conducts its business through Pacific Gas and Electric Company ("PG&E Corp."). PG&E Corp. is a California corporation with principal executive offices located at 77 Beale Street, P.O. Box 770000, San Francisco, California. PG&E Corp. is regulated by the California Public Utilities Commission ("CPUC") and the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration ("PHMSA"). PG&E Corp. is the holding company for Pacific Gas and Electric Company and its subsidiaries. PG&E Corp. is a citizen of California.

30. Nominal Defendant Pacific Gas & Electric Company is a California corporation with principal executive offices located at 77 Beale Street, P.O. Box 770000, San Francisco, California. PG&E is the operating subsidiary of PG&E Corp. and is regulated by the CPUC. PG&E provides power and energy services throughout the State of California and is the primary provider of power and energy in northern and central California. PG&E and PG&E Corp. share all the same directors except for Defendant Johns, who is not a director of PG&E Corp. In 1997, when PG&E Corp. was

1 incorporated and became the parent company of PG&E, all the common stock of PG&E
 2 was acquired by PG&E Corp., and all of the shareholders of PG&E became
 3 shareholders of PG&E Corp.⁵

4 **C. Individual Defendants**

5 31. Defendant Christopher P. Johns (“Johns”) has worked at PG&E since
 6 1996, and has been a director of PG&E since February 2010, as well as the Company’s
 7 President since August 2009. In 2015, PG&E announced that Johns would retire
 8 effective December 31, 2015 as President of San Diego Gas & Electric Company.
 9 Defendant Johns was also PG&E’s Senior Vice President, Financial Services from May
 10 2009 to July 2009; Senior Vice President and Treasurer from October 2005 to April
 11 2009; Chief Financial Officer (“CFO”) from October 2005 to May 2007; and Vice
 12 President and Controller from June 1996 to December 1999. Defendant Johns was
 13 PG&E’s CFO from January 2005 to July 2009; a Senior Vice President from
 14 September 2001 to July 2009; Treasurer from October 2005 to April 2009; Controller
 15 from July 1997 to October 2005; and a Vice President from July 1997 to September
 16 2001. Prior to joining PG&E, Johns was a partner at accounting firm KPMG Peat
 17 Marwick. Due to the Company’s extensive gas distribution and transmission line
 18 operations, defendant Johns knew that PG&E was subject to regulation from the
 19 CPUC and Pipeline and hazardous Materials Safety Administration (“PHMSA”) and
 20 guidelines for operators of natural gas pipelines in areas that could affect human
 21 safety. Defendant Johns also knew that, under the CPUC and PHMSA regulations,
 22 PG&E is required to implement an internal control system to ensure the
 23 implementation of an integrity management program (“IMP”) to ensure the
 24 identification and remediation of risks to the Company’s pipelines in areas that could
 25 affect human safety. In his capacity as a director, defendant Johns was specifically
 26 charged with overseeing the Company’s risk management practices, including

27 ⁵ PG&E Corp. currently owns 96.24% of PG&E’s stock. *See* PG&E Corp. 2015 Proxy
 28 Statement, at p. 73 (filed Mar. 25, 2015).

ensuring compliance with an IMP. Defendant Johns knowingly or recklessly allowed PG&E to violate the CPUC and PHMSA regulations by failing to implement and/or maintain adequate internal controls with respect to the Company's compliance with CPUC and PHMSA regulations. Johns also approved and supported the underfunding of PG&E's pipeline and operations.

32. Between 2004 and 2014, Johns received the following compensation:

Year	Salary	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value	LTIP Payouts	All Others	Total
2014	\$772,333	\$2,799,993		\$704,831	\$1,682,001		\$77,965	\$6,037,123
2013	\$750,278	\$2,261,914	-	\$753,579	\$340,133	-	\$84,591	\$4,190,495
2012	\$723,138	\$2,510,110	-	\$855,725	\$953,201	-	\$75,594	\$5,117,768
2011	\$701,250	\$3,418,732	-	\$319,245	\$614,133	-	\$79,366	\$5,132,726
2010	\$672,500	\$1,932,429	-	-	\$629,560	-	\$76,696	\$3,311,185
2009	\$593,866	\$1,880,357	-	\$684,431	\$268,077	-	\$70,999	\$3,497,730
2008	\$541,457	\$893,206	-	\$350,809	\$193,500	-	\$89,819	\$2,068,791
2007	\$523,640	\$832,935	-	\$343,010	\$156,155	-	\$88,486	\$1,944,226
2006	\$494,000	\$931,415	\$221,802	\$414,071	\$157,985	-	\$94,638	\$2,313,911
2005	\$475,000	\$231,470	-	-	-	-	\$39,542	\$746,012
2004	\$316,860	\$265,537	-	-	-	\$114,323	\$16,817	\$713,537

33. Johns received substantial financial benefits from serving in his role as the President and as a director of PG&E. These substantial financial benefits were obtained by Johns at the same time that PG&E Corp. and PG&E were underfunding and ignoring their natural gas safety obligations in breach of the Boards' fiduciary duties. Defendant Johns is a citizen of California.

34. Defendant Anthony F. Earley, Jr. ("Earley") is PG&E's Chairman, Chief Executive Officer, and President and has been since September 2011. Due to the Company's extensive gas distribution and transmission line operations, defendant Earley knew that PG&E was subject to regulation from the CPUC and the PHMSA guidelines for operators of natural gas pipelines in areas that could affect human safety.

35. Earley is also the Chair of the PG&E Corp. and PG&E Executive Committees. He is neither independent nor disinterested in the wrongdoing alleged, nor capable of evaluating a demand to bring suit. Earley made representations to the

1 public after he became the President, CEO and Chairman of the Board of PG&E Corp.
2 that he would steer PG&E in a different direction, would rectify the years of
3 mismanagement at PG&E, and change the PG&E corporate culture. However, Earley
4 has not done so and has, instead, continued to lead PG&E in the same manner as his
5 predecessors, which therefore subjects PG&E to the risk of further fines, penalties and
6 lawsuits.

7 36. Indeed, Earley's representations that PG&E has changed from its past
8 ways, when in fact PG&E has not, increases the potential liability faced by PG&E due
9 to Earley's misconduct. As the President, CEO and Chairman of the Board of PG&E
10 Corp., Earley directed PG&E's policies in July of 2013, when PG&E attempted to
11 sneak a disclosure about serious problems with one of PG&E's major transmission
12 lines past the CPUC as a "routine correction." Earley, therefore, faces substantial
13 personal exposure, and has allowed PG&E to face increased exposure, not only for
14 continuing the misconduct of the earlier PG&E Board of Directors but also for
15 misrepresenting to the public that PG&E is changing its operations and priorities.

16 37. As the President, CEO and Chairman of the Board of PG&E Corp.,
17 Earley was in charge of overseeing and implementing an internal control system to
18 ensure that PG&E identified, corrected and mitigated any potential risks of the
19 company's pipelines causing harm in areas that could affect human safety. Earley was
20 also specifically charged with overseeing PG&E's risk management practices and
21 policies. Earley has not only failed to change PG&E's policies, procedures and
22 practices regarding safety, but he has also misrepresented PG&E's and his efforts to
23 change those policies, procedures and practices. Earley also approved and supported
24 the underfunding of PG&E's pipeline and operations. Earley is unable to adequately
25 and appropriately evaluate any demand on the Board of Directors since this complaint
26 alleges acts of wrongdoing for which Earley is directly liable for.

27 PG&E paid defendant Earley the following compensation as an executive:
28

Year	Salary	Bonus	Stock Awards	Option Awards	Non-Equity Incentive Plan	Change in Pension Value	All Other Compensation	Total
2014	\$1,250,000	-	\$7,500,007	-	\$1,825,200	\$955,849	\$96,160	\$11,627,216
2013	\$1,250,000	-	\$6,499,960	-	\$1,743,750	\$634,517	\$94,718	\$10,222,945
2012	\$1,250,000	-	\$6,525,721	-	\$1,715,000	\$299,995	\$158,918	\$9,949,634
2011	\$378,788	\$1,500,000	\$7,406,267	-	-	\$71,423	\$184,909	\$9,541,387

Defendant Earley is a citizen of California.

38. Defendant Kent M. Harvey ("Harvey") served as PG&E's Senior Vice President and CFO and PG&E Corp.'s Senior Vice President, Financial Services from August 2009 to January 1, 2016. Harvey currently serves as PG&E Corp.'s Senior Vice President, Finance.⁶ Defendant Harvey was also PG&E's Senior Vice President and Chief Risk and Audit Officer from October 2005 to July 2009 and PG&EC's Senior Vice President, CFO, and Treasurer from January 2000 to September 2005. Due to the Company's extensive gas distribution and transmission line operations, defendant Harvey knew that PG&E was subject to regulation from the CPUC and the PHMSA guidelines for operators of natural gas pipelines in areas that could affect human safety. Defendant Harvey also knew that, under the CPUC and PHMSA regulations, PG&E is required to implement an internal control system to ensure the implementation of an IMP to ensure the identification and remediation of risks to the Company's pipelines in areas that could affect human safety. In his capacity as a director, defendant Harvey was specifically charged with overseeing the Company's risk management practices, including ensuring compliance with an IMP. Defendant Harvey knowingly, recklessly, or with gross negligence allowed PG&E to violate the CPUC and PHMSA regulations by failing to implement and/or maintain adequate internal controls with respect to the Company's compliance with CPUC and PHMSA regulations. Harvey also approved and supported the underfunding of PG&E's pipeline

⁶ On November 6, 2015, PG&E Corp. announced that Harvey would be replaced as CFO by Jason P. Wells effective January 1, 2016, but would continue to serve as PG&E Corp.'s Senior Vice President, Finance, until approximately June 30, 2016.

and operations. PG&E paid defendant Harvey the following compensation as an executive:

Year	Salary	Stock Awards	Option Awards	Non-Equity Incentive Plan	Changes in Pension Value	All Other Compensation	Total
2014	\$624,172	\$1,499,950	-	\$518,012	\$2,246,668	\$63,318	\$4,952,120
2013	\$627,785	\$1,356,996	-	\$507,969	\$ 715,856	\$64,419	\$3,273,025
2012	\$583,417	\$1,757,077	-	\$603,744	\$1,495,540	\$59,115	\$4,498,893
2011	\$554,625	\$1,407,059	-	\$235,661	\$ 842,919	\$63,376	\$3,103,640
2010	\$537,500	\$1,011,982	-	-	\$1,009,678	\$62,876	\$2,622,036
2009	\$454,106	\$ 564,322	-	\$428,529	\$ 432,377	\$50,507	\$1,929,571
2006	\$352,085	\$ 565,087	\$182,526	\$268,290	\$ 116,713	\$44,919	\$1,529,620

Defendant Harvey is a citizen of California.

39. Defendant Dinyar B. Mistry (“Mistry”) has worked at PG&E since 1994. He is currently PG&E’s CFO and has been since October 2011 and PG&E and PG&E Corp.’s Vice President and Controller and has been since March 2010. Defendant Mistry was also PG&E’s Vice President and Chief Risk and Audit Officer from August 2009 to March 2010; PG&EC’s Vice President and Chief Risk and Audit Officer from September 2009 to March 2010; PG&E’s Vice President, Internal Auditing/Compliance and Ethics from January 2009 to July 2009, and PG&EC’s Vice President, Regulation and Rates from November 2005 to December 2008. Mistry holds a Bachelor of Commerce in accounting and financial management from Bombay University, a Master of Business Administration from Texas Christian University and a Master of Science in taxation from Golden Gate University. He is also registered as a Certified Public Accountant in the state of California. Due to the Company’s extensive gas distribution and transmission line operations, defendant Mistry knew that PG&E was subject to regulation from the CPUC and PHMSA guidelines for operators of natural gas pipelines in areas that could affect human safety. Defendant Mistry also knew that, under the CPUC and PHMSA regulations, PG&E is required to implement an internal control system to ensure the implementation of an IMP to ensure the identification and remediation of risks to the Company’s pipelines in areas that could affect human safety. In his capacity as a director, defendant Mistry was specifically

1 charged with overseeing the Company's risk management practices, including
 2 ensuring compliance with an IMP. Defendant Mistry knowingly, recklessly, or with
 3 gross negligence allowed PG&E to violate the CPUC and PHMSA regulations by
 4 failing to implement and/or maintain adequate internal controls with respect to the
 5 Company's compliance with CPUC and PHMSA regulations. Mistry also approved
 6 and supported the underfunding of PG&E's pipeline and operations. PG&E paid
 7 defendant Mistry the following compensation as an executive:

Year	Salary	Stock Awards	Non-Equity Incentive Plan	Change in Pension Value	All Other Compensation	Total
2014	\$373,046	\$350,074	\$277,988	\$617,051	\$31,509	\$1,649,688
2013	\$376,779	\$316,645	\$195,109	\$31,452	\$31,237	\$951,222
2012	\$340,938	\$351,164	\$231,545	\$434,709	\$30,713	\$1,389,069
2011	\$327,825	\$307,794	\$89,546	\$264,919	\$30,123	\$1,020,207

11 Defendant Mistry is a citizen of California.

12 40. Defendant William D. Hayes is Vice President, Gas Maintenance and
 13 Construction, for PG&E. He is responsible for distribution maintenance and
 14 construction for the southern portion of PG&E's service area. Hayes has worked for
 15 PG&E for more than forty (40) years. In the Pre-Trial Conference Statement filed by
 16 the government in the criminal case on February 22, 2016, the U.S. Attorney's Office
 17 identified Hayes as an expected witness to be called at trial and described Hayes' April
 18 6, 2011 letter to the NTSB as being "at the heart of the obstruction count." Prior to
 19 being named to his current post in 2007, Hayes served as senior director of customer
 20 field services. Together with other defendants, Hayes submitted a false and
 21 misleading submission to the NTSB that resulted in the U.S. Department of Justice
 22 indicting the Company for obstruction of justice. Hayes also approved and supported
 23 the underfunding of PG&E's pipeline and operations. Hayes is a citizen of California.

24 41. Defendant Geisha J. Williams is President, Electric, at Pacific Gas and
 25 Electric Company and a member of PG&E's board of directors. Williams joined PG&E
 26 in 2007 and was named Executive Vice President for Electric Operations in 2011. Ms.
 27 Williams supervised Defendant William D. Hayes during the Relevant Time Period,
 28

1 including in 2011 when Hayes signed submissions to the NTSB regarding the
2 Company's responses to the NTSB investigation of the San Bruno explosion. Due to
3 the Company's extensive gas distribution and transmission line operations, defendant
4 Williams knew that PG&E was subject to regulation from the CPUC and PHMSA
5 guidelines for operators of natural gas pipelines in areas that could affect human
6 safety. Defendant Williams also knew that, under the CPUC and PHMSA regulations,
7 PG&E is required to implement an internal control system to ensure the
8 implementation of an IMP to ensure the identification and remediation of risks to the
9 Company's pipelines in areas that could affect human safety. In her capacity as a
10 director, defendant Williams was specifically charged with overseeing the Company's
11 risk management practices, including ensuring compliance with an IMP. Defendant
12 Williams knowingly, recklessly, or with gross negligence allowed PG&E to violate the
13 CPUC and PHMSA regulations by failing to implement and/or maintain adequate
14 internal controls with respect to the Company's compliance with CPUC and PHMSA
15 regulations. Williams also approved and supported the underfunding of PG&E's
16 pipeline and operations. Williams is a citizen of California.

17 42. Defendant Nick Stavropoulos is President, Gas, at Pacific Gas and
18 Electric Company and a member of the utility's board of directors. He is responsible
19 for the end-to-end delivery of safe, reliable, affordable and clean gas service to 16
20 million people across PG&E's 70,000 square mile service area in northern and central
21 California. Additionally, Stavropoulos oversees PG&E's enterprise IT and Safety &
22 Shared Services organizations. Mr. Stavropoulos joined PG&E in 2011. Due to the
23 Company's extensive gas distribution and transmission line operations, defendant
24 Stavropoulos also knew that PG&E was subject to regulation from the CPUC and
25 PHMSA guidelines for operators of natural gas pipelines in areas that could affect
26 human safety. Defendant Stavropoulos also knew that, under the CPUC and PHMSA
27 regulations, PG&E was required to implement an internal control system to ensure
28 the implementation of IMP to ensure the identification and remediation of risks to the

1 Company's pipelines in areas that could affect human safety. In his capacity as a
2 director of PG&E, defendant Stavropoulos was specifically charged with overseeing
3 the Company's risk management practices, including ensuring compliance with an
4 IMP. Defendant Stavropoulos knowingly or recklessly allowed PG&E to violate the
5 CPUC and PHMSA regulations by failing to implement and/or maintain adequate
6 internal controls with respect to the Company's compliance with CPUC and PHMSA
7 regulations. Stavropoulos also approved and supported the underfunding of PG&E's
8 pipeline and operations. Mr. Stavropoulos is a citizen of California.

9 43. Defendant C. Lee Cox ("Cox") is PG&E and PG&E Corp.'s Lead Director
10 and PG&E Corp.'s non-executive Chairman of the Board and has been since
11 September 2011 and a director of PG&E and PG&E Corp. and has been since 1996.
12 Defendant Cox was also PG&E's interim Chairman, Chief Executive Officer ("CEO"),
13 and President from May 2011 to September 2011; PG&E Corp.'s non-executive
14 Chairman of the Board from January 2008 to April 2011; and lead director of PG&E
15 and PG&E Corp. from April 2004 to April 2011. Defendant Cox is Chairman of
16 PG&E's Compensation Committee and a member of PG&E's Finance Committee and
17 has been since September 2011. Defendant Cox was also Chairman of PG&E's
18 Compensation Committee from at least March 2005 to May 2011, a member of that
19 committee from at least March 2003 to May 2011, and a member of PG&E's Finance
20 Committee from at least March 2004 to May 2011. Defendant Cox served as
21 Chairman of the Audit Committees of PG&E and PG&E Corp. until at least March
22 2004. Due to the Company's extensive gas distribution and transmission line
23 operations, defendant Cox also knew that PG&E was subject to regulation from the
24 CPUC and PHMSA guidelines for operators of natural gas pipelines in areas that
25 could affect human safety. Defendant Cox also knew that, under the CPUC and
26 PHMSA regulations, PG&E is required to implement an internal control system to
27 ensure the implementation of IMP to ensure the identification and remediation of
28 risks to the Company's pipelines in areas that could affect human safety. In his

capacity as a director, defendant Cox was specifically charged with overseeing the Company's risk management practices, including ensuring compliance with an IMP. Defendant Cox knowingly or recklessly allowed PG&E to violate the CPUC and PHMSA regulations by failing to implement and/or maintain adequate internal controls with respect to the Company's compliance with CPUC and PHMSA regulations. Cox also approved and supported the underfunding of PG&E's pipeline and operations. PG&E paid defendant Cox the following compensation as an executive:

Year	Salary	Stock Awards	All Other Compensation	Total
2011	\$660,000	\$89,970	\$125,259	\$875,229

and as a director:

Fiscal Year	Fees Paid in Cash	Stock Awards	Other Compensation	Total
2014	\$64,924	-	\$96	\$65,020
2013	\$160,000	\$104,986	\$96	\$265,082
2012	\$155,250	\$89,967	\$95	\$245,312
2011	\$114,603	\$89,970	\$670,656	\$875,229
2010	\$161,500	\$90,586	\$95	\$252,181
2009	\$145,750	\$89,981	\$95	\$235,826
2008	\$140,750	\$68,667	\$95	\$209,512
2007	\$138,500	\$64,000	\$95	\$202,595
2006	\$126,500	\$48,000	\$95	\$174,595

Defendant Cox is a citizen of California.

44. Defendant Barry Lawson Williams ("Williams") is a PG&E director and has been since 1996 and a PG&EC director and has been since 1990. Defendant Williams is also Chairman of the Audit Committees of PG&E and PG&E Corp. and has been since at least March 2005 and a member of those committees and has been since March 2003. Defendant Williams is a member of PG&E's Compensation Committee and has been since at least March 2005 and a member of PG&E's Finance Committee and has been since at least March 2004. Due to the Company's extensive gas distribution and transmission line operations, defendant Williams knew that PG&E was subject to regulation from the CPUC and PHMSA guidelines for operators of natural gas pipelines in areas that could affect human safety. Defendant Williams

also knew that, under the CPUC and PHMSA regulations, PG&E is required to implement an internal control system to ensure the implementation of an IMP to ensure the identification and remediation of risks to the Company's pipelines in areas that could affect human safety. In his capacity as a director, defendant Williams was specifically charged with overseeing the Company's risk management practices, including ensuring compliance with an IMP. Defendant Williams knowingly or recklessly allowed PG&E to violate the CPUC and PHMSA regulations by failing to implement and/or maintain adequate internal controls with respect to the Company's compliance with CPUC and PHMSA regulations. Williams also approved and supported the underfunding of PG&E's pipeline and operations. PG&E paid defendant Williams the following compensation as a director:

Fiscal Year	Fees Paid In Cash	Stock Awards	Option Awards	Other Compensation	Total
2014	\$170,189	\$104,984	-	\$2,596	\$277,769
2013	\$165,500	\$104,986	-	\$2,596	\$273,082
2012	\$153,000	\$89,967	-	\$893	\$243,860
2011	\$208,500	\$89,970	-	\$2,095	\$300,565
2010	\$170,500	\$90,856	-	\$2,595	\$263,681
2009	\$149,250	\$89,981	-	\$2,595	\$241,826
2008	\$171,750	\$68,667	\$25,106	\$2,595	\$268,118
2007	\$149,500	\$64,000	\$38,251	\$95	\$251,846
2006	\$137,500	\$18,000	\$51,849	\$2,595	\$209,944

Defendant Williams is a citizen of California.

45. Defendant Barbara L. Rambo ("Rambo") is a PG&E and PG&E Corp. director and has been since January 2005. Defendant Rambo is also Chairman of PG&E's Finance Committee and has been since May 2008 and a member of that committee and has been since January 2005. Defendant Rambo is a member of PG&E's Compensation Committee and has been since January 2005 and was Chairman of that committee from May 2011 to September 2011. Due to the Company's extensive gas distribution and transmission line operations, defendant Rambo knew that PG&E was subject to regulation from the CPUC and PHMSA guidelines for operators of natural gas pipelines in areas that could affect human safety. Defendant Rambo also knew that, under the CPUC and PHMSA regulations,

PG&E is required to implement an internal control system to ensure the implementation of an IMP to ensure the identification and remediation of risks to the Company's pipelines in areas that could affect human safety. In her capacity as a director, defendant Rambo was specifically charged with overseeing the Company's risk management practices, including ensuring compliance with an IMP. Defendant Rambo knowingly or recklessly allowed PG&E to violate the CPUC and PHMSA regulations by failing to implement and/or maintain adequate internal controls with respect to the Company's compliance with CPUC and PHMSA regulations. Rambo also approved and supported the underfunding of PG&E's pipeline and operations. PG&E paid defendant Rambo the following compensation as a director:

Fiscal Year	Fees Paid In Cash	Stock Awards	Other Compensation	Total
2014	\$115,500	\$104,984	\$96	\$220,580
2013	\$103,250	\$104,986	\$2,596	\$210,832
2012	\$105,250	\$89,967	\$3,393	\$198,610
2011	\$164,939	\$89,970	\$95	\$255,004
2010	\$116,750	\$90,586	\$95	\$207,431
2009	\$101,000	\$89,981	\$95	\$191,076
2008	\$95,750	\$73,500	\$95	\$169,345
2007	\$88,500	\$39,333	\$95	\$127,928
2006	\$76,500	\$30,000	\$95	\$106,595

Defendant Rambo is a citizen of Massachusetts.

46. Defendant Maryellen C. Herringer ("Herringer") is a PG&E and PG&E Corp. director and has been since October 2005. Defendant Herringer was also PG&E and PG&E Corp.'s interim Lead Director and PG&E Corp.'s interim non-executive Chairman of the Board from May 2011 to September 2011. Defendant Herringer is a member of the Audit Committees of PG&E and PG&E Corp. and has been since January 2006 and was also a member of PG&E's Public Policy Committee from January 2006 to at least March 2007. Due to the Company's extensive gas distribution and transmission line operations, defendant Herringer knew that PG&E was subject to regulation from the CPUC and PHMSA guidelines for operators of natural gas pipelines in areas that could affect human safety. Defendant Herringer also knew that, under the CPUC and PHMSA regulations, PG&E is required to implement an

internal control system to ensure the implementation of an IMP to ensure the identification and remediation of risks to the Company's pipelines in areas that could affect human safety. In her capacity as a director, defendant Herringer was specifically charged with overseeing the Company's risk management practices, including ensuring compliance with an IMP. Defendant Herringer knowingly or recklessly allowed PG&E to violate the CPUC and PHMSA regulations by failing to implement and/or maintain adequate internal controls with respect to the Company's compliance with CPUC and PHMSA regulations. Herringer also approved and supported the underfunding of PG&E's pipeline and operations. PG&E paid defendant Herringer the following compensation as a director:

Fiscal Year	Fees Paid In Cash	Stock Awards	Option Awards	Other Compensation	Total
2014	\$120,500	\$104,984	-	\$2,596	\$228,080
2013	\$122,000	\$104,986	-	\$2,596	\$229,582
2012	\$107,750	\$9,967	-	\$2,595	\$200,312
2011	\$169,434	\$89,970	-	\$2,595	\$261,999
2010	\$115,750	\$90,856	-	\$2,595	\$208,931
2009	\$96,250	\$89,981	-	\$2,595	\$188,826
2008	\$114,250	\$47,000	\$4,346	\$2,595	\$168,191
2007	\$77,500	\$26,250	\$3,617	\$2,595	\$109,962
2006	\$73,500	\$9,750	\$5,077	\$95	\$88,422

Defendant Herringer is a citizen of California.

47. Defendant Richard A. Meserve ("Meserve") is a PG&E and PG&E Corp. director and has been since December 2006. Defendant Meserve is also a member of PG&E's Public Policy Committee and has been since February 2007. Due to the Company's extensive gas distribution and transmission line operations, defendant Meserve knew that PG&E was subject to regulation from the CPUC and PHMSA guidelines for operators of natural gas pipelines in areas that could affect human safety. Defendant Meserve also knew that, under the CPUC and PHMSA regulations, PG&E is required to implement an internal control system to ensure the implementation of an IMP to ensure the identification and remediation of risks to the Company's pipelines in areas that could affect human safety. In his capacity as a director, defendant Meserve was specifically charged with overseeing the Company's

1 risk management practices, including ensuring compliance with an IMP. Defendant
 2 Meserve knowingly or recklessly allowed PG&E to violate the CPUC and PHMSA
 3 regulations by failing to implement and/or maintain adequate internal controls with
 4 respect to the Company's compliance with CPUC and PHMSA regulations. Meserve
 5 also approved and supported the underfunding of PG&E's pipeline and operations.
 6 PG&E paid defendant Meserve the following compensation as a director:

Fiscal Year	Fees Paid In Cash	Stock Awards	Other Compensation	Total
2014	\$117,250	\$104,984	\$2,596	\$224,830
2013	\$105,000	\$104,986	\$2,596	\$212,582
2012	\$103,500	\$89,967	\$2,595	\$196,062
2011	\$104,707	\$89,970	\$1,095	\$195,772
2010	\$84,750	\$90,586	\$1,595	\$176,931
2009	\$81,250	\$89,981	\$1,095	\$172,326
2008	\$79,750	\$32,667	\$1,095	\$113,512
2007	\$67,500	\$16,000	\$95	\$83,595
2006	\$3,217	-	\$3	\$3,220

12 Defendant Meserve is a citizen of Virginia.

13 48. Defendant Roger H. Kimmel ("Kimmel") is a PG&E and PG&E Corp.
 14 director and has been since January 2009. Defendant Kimmel is also a member of
 15 PG&E's Public Policy Committee and has been since April 2009 and a member of
 16 PG&E's Finance Committee and has been since May 2009. Due to Company's
 17 extensive gas distribution and transmission line operations, defendant Kimmel knew
 18 that PG&E was subject to regulation from the CPUC and PHMSA guidelines for
 19 operators of natural gas pipelines in areas that could affect human safety. Defendant
 20 Kimmel also knew that, under the CPUC and PHMSA regulations, PG&E is required
 21 to implement an internal control system to ensure the implementation of an IMP to
 22 ensure the identification and remediation of risks to the Company's pipelines in areas
 23 that could affect human safety. In his capacity as a director, defendant Kimmel was
 24 specifically charged with overseeing the Company's risk management practices,
 25 including ensuring compliance with an IMP. Defendant Kimmel knowingly or
 26 recklessly allowed PG&E to violate the CPUC and PHMSA regulations by failing to
 27 implement and/or maintain adequate internal controls with respect to the Company's
 28

compliance with CPUC and PHMSA regulations. Kimmel also approved and supported the underfunding of PG&E's pipeline and operations. PG&E paid defendant Kimmel the following compensation as a director:

Fiscal Year	Fees Paid In Cash	Stock Awards	Option Awards	Other Compensation	Total
2014	\$107,250	\$104,984	-	\$96	\$212,330
2013	\$91,500	\$104,986	-	\$96	\$196,582
2012	\$84,750	\$89,967	-	\$95	\$174,812
2011	\$102,250	\$89,970	-	\$95	\$192,315
2010	\$95,250	\$90,856	-	\$95	\$185,931
2009	\$88,250	\$67,481	\$24,336	\$95	\$180,162

Defendant Kimmel is a citizen of Connecticut.

49. Defendant Lewis Chew ("Chew") is a PG&E and PG&E Corp. director and has been since September 2009. Defendant Chew is also a member of the Audit Committees of PG&E and PG&E Corp. and a member of PG&E's Public Policy Committee and has been since September 2009. Due to the Company's extensive gas distribution and transmission line operations, defendant Chew knew that PG&E was subject to regulation from the CPUC and PHMSA guidelines for operators of natural gas pipelines in areas that could affect human safety. Defendant Chew also knew that, under the CPUC and PHMSA regulations, PG&E is required to implement an internal control system to ensure the implementation of an IMP to ensure the identification and remediation of risks to the Company's pipelines in areas that could affect human safety. In his capacity as a director, defendant Chew was specifically charged with overseeing the Company's risk management practices, including ensuring compliance with an IMP, Defendant Chew knowingly or recklessly allowed PG&E to violate the CPUC and PHMSA regulations by failing to implement and/or maintain adequate internal controls with respect to the Company's compliance with CPUC and PHMSA regulations. Chew also approved and supported the underfunding of PG&E's pipeline and operations. PG&E paid defendant Chew the following compensation as a director:

Fiscal Year	Fees Paid In Cash	Stock Awards	Other Compensation	Total
2014	\$110,000	\$104,984	\$2,596	\$217,580
2013	\$112,612	\$104,986	\$2,596	\$220,194
2012	\$92,500	\$89,967	\$2,595	\$185,062
2011	\$116,500	\$89,970	\$2,595	\$209,065

2010	\$101,250	\$90,586	\$95	\$191,931
2009	\$27,492	-	\$24	\$27,516

Defendant Chew is a citizen of California.

50. Defendant Peter A. Darbee (“Darbee”) was PG&E’s CEO from January 2005 to April 2011; President from January 2005 to June 2007 and from September 2007 to April 2011; Chairman of the Board from January 2006 to April 2011; and a director from January 2005 to April 2011. Defendant Darbee was also PG&E Corp.’s President and CEO from September 2008 to July 2009; Chairman of the Board from January 2006 to May 2007; and a director from January 2005 to April 2011. Defendant Darbee was PG&E’s Senior Vice President and CFO from September 1999 to December 2004. Due to the Company’s extensive gas distribution and transmission line operations, defendant Darbee knew that PG&E was subject to regulation from the CPUC and PHMSA guidelines for operators of natural gas pipelines in areas that could affect human safety. Defendant Darbee also knew that, under the CPUC and PHMSA regulations, PG&E was required to implement an internal control system to ensure the implementation of an IMP to ensure the identification and remediation of risks to the Company’s pipelines in areas that could affect human safety. In his capacity as a director, defendant Darbee was specifically charged with overseeing the Company’s risk management practices, including ensuring compliance with an IMP. Defendant Darbee knowingly or recklessly allowed PG&E to violate the CPUC and PHMSA regulations by failing to implement and/or maintain adequate internal controls with respect to the Company’s compliance with CPUC and PHMSA regulations. Darbee was listed as one of the government’s expected witnesses for the criminal trial set to commence on March 22, 2016. Darbee also approved and supported the underfunding of PG&E’s pipeline and operations. PG&E paid defendant Darbee the following compensation as an executive:

Year	Salary	Bonus	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value	LTIP Payouts	All Other Compensation	Total
2011	\$488,896	-	\$4,435,855	-	-	\$4,116,160	-	\$50,993	\$9,091,904
2010	\$1,182,160	-	\$4,966,124	-	-	\$2,137,343	-	\$107,759	\$8,393,385
2009	\$1,135,633	-	\$6,285,392	-	\$1,871,524	\$1,131,494	-	\$135,385	\$10,559,428
2008	\$1,090,833	-	\$5,733,999	-	\$1,285,002	\$1,461,189	-	\$150,210	\$9,721,233

2007	\$1,050,000	-	\$5,283,601		\$1,250,550	\$1,295,034	-	\$174,364	\$9,053,549
2006	\$975,000	-	\$3,666,389	\$60,092	\$1,486,900	\$1,028,440	-	\$230,237	\$7,990,058
2005	\$850,000	\$1,239,300	\$827,481	-	-	-	\$3,472	\$217,385	\$3,137,638
2004	\$525,000	\$585,926	\$372,506	-	-	-	\$366,928	\$28,190	\$1,878,550

Defendant Darbee is a citizen of California.

51. Defendant David M. Lawrence (“Lawrence”) was a PG&E director from 1996 to April 2005 and a PG&E Corp. director from 1995 to April 2005. Defendant Lawrence was also a member of PG&E’s Compensation Committee and Public Policy Committee from at least March 2003 to April 2005. Due to Company’s extensive gas distribution and transmission line operations, defendant Lawrence knew that PG&E was subject to regulation from the CPUC and PHMSA guidelines for operators of natural gas pipelines in areas that could affect human safety. Defendant Lawrence also knew that, under the CPUC and PHMSA regulations, PG&E is required to implement an internal control system to ensure the implementation of an IMP to ensure the identification and remediation of risks to the Company’s pipelines in areas that could affect human safety. In his capacity as a director, defendant Lawrence was specifically charged with overseeing the Company’s risk management practices, including ensuring compliance with an IMP. Defendant Lawrence knowingly or recklessly allowed PG&E to violate the CPUC and PHMSA regulations by failing to implement and/or maintain adequate internal controls with respect to the Company’s compliance with CPUC and PHMSA regulations. Lawrence also approved and supported the underfunding of PG&E’s pipeline and operations. Defendant Lawrence is a citizen of California.

52. Defendant Fred J. Fowler (“Fowler”) has been a director since March 1, 2012. Fowler is the retired President and CEO of Spectra Energy Corp., formerly Duke Energy Gas. He is currently Chairman of the Board of Spectra Energy Partners, which owns extensive natural gas assets. Since his election to the Board, Fowler has served on the Company’s Nuclear, Operations, and Safety Committee and the Company’s Finance Committee. Due to Company’s extensive gas distribution and transmission line operations, defendant Fowler knew that PG&E was subject to regulation from the

CPUC and PHMSA guidelines for operators of natural gas pipelines in areas that could affect human safety. Defendant Fowler also knew that, under the CPUC and PHMSA regulations, PG&E is required to implement an internal control system to ensure the implementation of an IMP to ensure the identification and remediation of risks to the Company's pipelines in areas that could affect human safety. In his capacity as a director, defendant Fowler was specifically charged with overseeing the Company's risk management practices, including ensuring compliance with an IMP. Defendant Fowler knowingly or recklessly allowed PG&E to violate the CPUC and PHMSA regulations by failing to implement and/or maintain adequate internal controls with respect to the Company's compliance with CPUC and PHMSA regulations. Fowler also approved and supported the underfunding of PG&E's pipeline and operations. PG&E paid defendant Fowler the following compensation as an executive:

Fiscal Year	Fees Paid In Cash	Stock Awards	Other Compensation	Total
2014	\$93,250	\$104,984	\$96	\$198,330
2013	\$86,250	\$104,986	\$96	\$191,332
2012	\$66,935	\$89,967	\$71	\$156,973

Defendant Fowler is a citizen of North Carolina.

53. Defendant Richard C. Kelly ("Kelly") has been a director since June 2013. Since his election to the Board, Kelly has served on the Company's Audit Committee and Nuclear, Operations, and Safety Committee. He previously served as Chairman and Chief Executive Officer of Xcel Energy Inc. from 2005 to 2011. Prior to that, Mr. Kelly held various executive positions at Xcel, including President, Chief Operating Officer, and Chief Financial Officer. Before the merger forming Xcel Energy Inc. in 2000, he held a variety of finance-related positions at predecessor companies New Century Energies and Public Service of Colorado; Canadian Pacific Railway (transcontinental railway in Canada and the United States) (2006 to 2014); and Xcel Energy Inc. (2004 to 2011). Mr. Kelly is former Chairman of the Edison Electric Institute, a former board member of the Electric Power Research Institute and the

1 Nuclear Energy Institute, and a former member of the National Petroleum Council
 2 and the National Advisory Council of the National Renewable Energy Laboratory. Mr.
 3 Kelly also was a director of BrightSource Energy, Inc. (solar thermal technology
 4 company) from 2011 to 2012. Due to Company's extensive gas distribution and
 5 transmission line operations, defendant Kelly knew that PG&E was subject to
 6 regulation from the CPUC and PHMSA guidelines for operators of natural gas
 7 pipelines in areas that could affect human safety. Defendant Kelly also knew that,
 8 under the CPUC and PHMSA regulations, PG&E is required to implement an internal
 9 control system to ensure the implementation of an IMP to ensure the identification
 10 and remediation of risks to the Company's pipelines in areas that could affect human
 11 safety. In his capacity as a director, defendant Kelly was specifically charged with
 12 overseeing the Company's risk management practices, including ensuring compliance
 13 with an IMP. Defendant Kelly knowingly or recklessly allowed PG&E to violate the
 14 CPUC and PHMSA regulations by failing to implement and/or maintain adequate
 15 internal controls with respect to the Company's compliance with CPUC and PHMSA
 16 regulations. Kelly also approved and supported the underfunding of PG&E's pipeline
 17 and operations. PG&E paid defendant Kelly the following compensation as an
 18 executive:

Fiscal Year	Fees Paid In Cash	Stock Awards	Other Compensation	Total
2014	\$101,750	\$104,984	\$96	\$206,830
2013	\$63,479	-	\$48	\$63,527

21 Upon information and belief, Defendant Kelly is a citizen of Minnesota.

22 54. Defendant Rosendo Parra ("Parra") has been a director since 2009. Due to
 23 Company's extensive gas distribution and transmission line operations, defendant
 24 Parra knew that PG&E was subject to regulation from the CPUC and PHMSA
 25 guidelines for operators of natural gas pipelines in areas that could affect human
 26 safety. Defendant Parra also knew that, under the CPUC and PHMSA regulations,
 27 PG&E is required to implement an internal control system to ensure the
 28

1 implementation of an IMP to ensure the identification and remediation of risks to the
 2 Company's pipelines in areas that could affect human safety. In his capacity as a
 3 director, defendant Parra was specifically charged with overseeing the Company's risk
 4 management practices, including ensuring compliance with an IMP. Defendant Parra
 5 knowingly or recklessly allowed PG&E to violate the CPUC and PHMSA regulations
 6 by failing to implement and/or maintain adequate internal controls with respect to the
 7 Company's compliance with CPUC and PHMSA regulations. Parra also approved and
 8 supported the underfunding of PG&E's pipeline and operations. PG&E paid defendant
 9 Parra the following compensation as an executive:

Fiscal Year	Fees Paid In Cash	Stock Awards	Other Compensation	Total
2014	\$107,250	\$104,984	\$96	\$212,330
2013	\$95,000	\$104,986	\$2,596	\$202,582
2012	\$90,000	\$89,967	\$2,595	\$182,562
2011	\$112,750	\$89,970	\$2,595	\$205,315
2010	\$91,750	\$90,586	\$95	\$182,431
2009	\$28,242	-	\$24	\$28,266

14 Defendant Parra is a citizen of Texas.

15 55. Defendant Anne Shen Smith ("Smith") has been a director of PG&E and
 16 PG&E Corp. since February 2015. Ms. Smith served as Chairman and Chief Executive
 17 Officer of Southern California Gas Company (SoCalGas) (natural gas utility), a
 18 subsidiary of Sempra Energy, from 2012 until her retirement in March 2014. She also
 19 has held various other executive positions at SoCalGas, including President, Chief
 20 Operating Officer, Senior Vice President - Customer Services, and Vice President of
 21 Environment and Safety. Ms. Smith also served as Senior Vice President - Customer
 22 Services of San Diego Gas & Electric Company, an energy utility that is also owned by
 23 Sempra Energy. Since February 2015, Ms. Smith has served on the Company's
 24 Nuclear, Operations, and Safety Committee, and the Company's Public Policy
 25 Committee. Due to the Company's extensive gas distribution and transmission line
 26 operations, defendant Smith knew that PG&E was subject to regulation from the
 27 CPUC and PHMSA guidelines for operators of natural gas pipelines in areas that
 28 could affect human safety. Defendant Smith also knew that, under the CPUC and

1 PHMSA regulations, PG&E is required to implement an internal control system to
2 ensure the implementation of an IMP to ensure the identification and remediation of
3 risks to the Company's pipelines in areas that could affect human safety. In her
4 capacity as a director, defendant Smith was specifically charged with overseeing the
5 Company's risk management practices, including ensuring compliance with an IMP.
6 Defendant Smith knowingly or recklessly allowed PG&E to violate the CPUC and
7 PHMSA regulations by failing to implement and/or maintain adequate internal
8 controls with respect to the Company's compliance with CPUC and PHMSA
9 regulations. Smith also approved and supported the underfunding of PG&E's pipeline
10 and operations. Defendant Smith is a citizen of California.

11 56. Defendant Forrest E. Miller ("Miller") has been a director of PG&E and
12 PG&E Corp. since December 30, 2008. At all relevant times, Miller has served on the
13 Company's Audit, Compensation, and Executive Committees. Prior to serving as
14 Group President-Corporate Strategy and Development of AT&T Inc. (2007 to 2012),
15 Mr. Miller served as Group President of AT&T Corp., the Global Enterprise division of
16 AT&T Inc., and held a variety of executive positions at SBC Communications
17 (communications holding company) and its predecessor Pacific Telesis Group. Due to
18 the Company's extensive gas distribution and transmission line operations, defendant
19 Miller knew that PG&E was subject to regulation from the CPUC and PHMSA
20 guidelines for operators of natural gas pipelines in areas that could affect human
21 safety. Defendant Miller also knew that, under the CPUC and PHMSA regulations,
22 PG&E is required to implement an internal control system to ensure the
23 implementation of an IMP to ensure the identification and remediation of risks to the
24 Company's pipelines in areas that could affect human safety. In his capacity as a
25 director, defendant Miller was specifically charged with overseeing the Company's risk
26 management practices, including ensuring compliance with an IMP. Defendant Miller
27 knowingly or recklessly allowed PG&E to violate the CPUC and PHMSA regulations
28 by failing to implement and/or maintain adequate internal controls with respect to the

Company's compliance with CPUC and PHMSA regulations. Miller also approved and supported the underfunding of PG&E's pipeline and operations. PG&E paid defendant Miller the following compensation as an executive:

Fiscal Year	Fees Paid In Cash	Stock Awards	Other Compensation	Total
2014	\$133,618	\$104,984	\$96	\$238,698
2013	\$106,750	\$104,986	\$96	\$211,832
2012	\$92,500	\$89,967	\$95	\$182,562
2011	\$125,250	\$89,970	\$95	\$215,315
2010	\$95,000	\$90,586	\$95	\$185,681
2009	\$65,250	\$67,481	\$95	\$157,162

Defendant Miller is a citizen of Texas.

57. The defendants identified in ¶¶ 31, 34, 38-42 are referred to herein as the "Officer Defendants." The defendants identified in ¶¶ 43-56 are referred to herein as the "Director Defendants." Collectively, the Officer Defendants and the Director Defendants are referred to herein as the "Individual Defendants."

V. DUTIES OF THE INDIVIDUAL DEFENDANTS

A. The Individual Defendants Are Responsible For Ensuring PG&E's Compliance with California and Federal Safety Regulations

58. PG&E is a public utility and thus subject to extensive state and federal regulation. In California, rules promulgated by the California Public Utility Commission ("CPUC") govern the operation of gas pipelines. The rules are codified in General Order 112E, State of California Rules Governing Design, Construction, Testing, Operation, and Maintenance of Gas Gathering, Transmission, and Distribution Piping Systems, dated September 11, 1995.

59. Federal law dictates how gas pipelines should be built and operated, while allowing states to adopt additional requirements. The federal government delegates significant enforcement responsibilities to the states. In California, regulatory and enforcement authority rests with the CPUC.

60. PHMSA is an agency within the Department of Transportation ("DOT") that is responsible for ensuring that pipeline operators, such as PG&E, operate safely. Pub. L. 108-426, 118 Stat. 2423 (Nov. 30, 2004). PHMSA is responsible for pipeline

1 safety regulations and enforcement. In California, the CPUC is primarily responsible
2 for enforcement of safety regulations.

3 61. PHMSA regulations make operators of gas transmission pipelines
4 affecting a “high consequence area” (“HCA”), *e.g.* densely populated areas, responsible
5 for assessing and ensuring the integrity of their pipelines. The regulations are
6 designed to prevent the type of catastrophic incidents that occurred in Rancho
7 Cordova in 2008 and San Bruno in 2010. ***Operators are required to develop and***
8 ***adopt a written integrity management program (“IMP”)*** that addresses the risks
9 on each segment of the pipeline.

10 62. As a result of their status as officers and directors of the Company, the
11 Individual Defendants owed fiduciary duties to ensure that the Company complied
12 with the federal and state laws regulating its business. Indeed, the business judgment
13 rule requires officers and directors to ***fully inform themselves*** of all material facts
14 before taking action on behalf of the Company.

15 **B. The Individual Defendants Also Owed Duties to the Company**
16 **With Respect to Pipeline Safety Due to Their Membership on**
17 **Various Board Committees**

18 63. As set forth herein, many of the Individual Defendants served as
19 members of the Company’s Board Committees during the Relevant Period. Each
20 committee had specific duties, as set forth in the Company’s Proxy Statement, as
21 described below.⁷ For each of these committees, the applicable company’s Board has
22 adopted a formal charter that sets forth the committee’s duties and responsibilities;
23 the charters are available on the companies’ websites.

COMMITTEE NAME	COMPANY	PRIMARY DUTIES/SCOPE OF RESPONSIBILITY
Executive	PG&E Corporation and Utility	Exercises powers and performs duties of the applicable Board, subject to limits imposed by state law.

26
27 ⁷ Where a Committee exists at PG&E Corporation only, that committee’s
28 responsibilities include assisting and advising the Utility Board on matters within the
Committee’s scope of responsibility.

Audit^[1]	PG&E Corporation and Utility	Oversees: <ul style="list-style-type: none"> • Integrity of the company financial statements, and financial and accounting practices • Internal controls, and external and internal auditing programs • Selection and oversight of the companies' independent registered public accounting firm ("independent auditor") • Business ethics and compliance • Related party transactions • With the assistance of other board committees, risk management and assessment
Compensation	PG&E Corporation	Oversees matters relating to compensation and benefits, including: <ul style="list-style-type: none"> • Compensation for non-employee directors • Development, selection, and compensation of policy-making officers • Management evaluation and officer succession • Employment, compensation, and benefits policies and practices • Potential risks arising from compensation policies and practices • Retention and oversight of the Committee's independent compensation consultants, legal counsel, or other advisors
Finance	PG&E Corporation	Oversees matters relating to financial planning, policies, and risk, including: <ul style="list-style-type: none"> • Strategic plans and initiatives • Financial and investment plans and strategies⁽²⁾ • Dividend policy • Proposed capital projects and divestitures • Financing plans • Use of derivative instruments • Major commercial banking, investment banking, financial consulting, insurance, and other financial relationships • Major financial risk exposures
Nominating and Governance	PG&E Corporation	Oversees matters relating to selection of directors and corporate governance, including: <ul style="list-style-type: none"> • Recommending Board candidates, including reviewing skills and characteristics required of Board members • Selection of the chairmanship and membership of Board committees, and the nomination of a lead director of each company's Board, if necessary • Corporate governance matters, including the companies' governance principles and practices, and the review of shareholder proposals • Evaluation of the Boards' performance and effectiveness
Nuclear, Operations, and Safety	PG&E Corporation	Oversees matters relating to safety, operational performance, and compliance issues related to the Utility's nuclear, generation, gas and electric transmission, and gas and electric distribution operations and facilities ("Operations and Facilities"),

		including: <ul style="list-style-type: none"> •Principal risks arising out of the Operations and Facilities, the process used by management to analyze and identify these risks, and the effectiveness of programs to manage or mitigate these risks •Utility's goals, programs, policies, and practices with respect to promoting a strong safety culture •Periodically visiting the Utility's nuclear and other operating facilities
Public Policy	PG&E Corporation	Oversees public policy, sustainability, and corporate responsibility issues that could affect customers, shareholders, or employees, including: <ul style="list-style-type: none"> •Environmental protection, quality, and compliance •Community investment programs, activities, and contributions •Political contributions and political activities •Workforce diversity, inclusion, and development •Supplier diversity

(2) Each year, the Finance Committee presents for the PG&E Corporation and Utility Boards' review and concurrence (1) a multi-year outlook for PG&E Corporation and its subsidiaries that, among other things, summarizes projected financial performance and establishes the basis for the annual budget, and (2) an annual financial performance plan that establishes financial objectives and sets operating expense and capital spending budgets that reflect the first year of the approved multi-year outlook. Members of the Boards receive a monthly report that compares actual to budgeted financial performance and provides other information about financial performance.

64. The current membership of PG&E Corporation's and the Utility's standing Board committees is shown in the table below.⁸

	Executive Committees	Audit Committees	Compensation Committee	Finance Committee	Nominating And Governance Committee	Nuclear, Operations, and Safety Committee	Public Policy Committee
<i>Independent Non-Employee Directors:</i>							
L. Chew ⁽¹⁾	X	X					X*
F. J. Fowler				X		X	
M. C. Herringer	X	X	X		X*		
R. C. Kelly ⁽¹⁾		X				X	
R. H. Kimmel				X	X		X
R. A. Meserve	X				X	X*	X
F. E. Miller ⁽¹⁾	X	X*	X				

⁸ See PG&E Proxy Statement filed Mar. 25, 2015, at p. 15.

R. G. Parra				X	X	X	
B. L. Rambo	X		X	X*	X		
A. S. Smith						X	X
B. L. Williams ⁽¹⁾⁽²⁾	X	X	X*	X			
<i>Employee Directors:</i>							
A. F. Earley, Jr.	X*						
C. P. Johns ⁽³⁾	X						
Number of Meetings in 2014 (PG&E Corporation/Utility where applicable)	0/0	5/5	5	5	7	5	4

* Committee Chair

- (1) Independent audit committee financial expert, as defined by the Securities and Exchange Commission ("SEC") and applicable stock exchanges, and as determined by the Boards. Background information on each audit committee financial expert can be found in the director biographies beginning on page 4.
- (2) Independent lead director of PG&E Corporation and independent non-executive Chairman of the Board of the Utility.
- (3) Member of the Utility Executive Committee only.

C. Management and the Board's Duties to the Company

65. Moreover, all Individual Defendants, by reason of their positions as officers, directors, and/or fiduciaries of the Company and because of their ability to control the business and corporate affairs of PG&E, owed PG&E and its shareholders fiduciary obligations of good faith, loyalty, candor, and care and were and are required to use their utmost ability to control and manage PG&E in a fair, just, honest, and equitable manner. The Individual Defendants were and are required to act in furtherance of the best interests of the Company and its shareholders so as to benefit all shareholders equally and not in furtherance of their personal interests or benefits. Each director and officer of the Company owes to PG&E and its shareholders the fiduciary duty to exercise good faith and diligence in the administration of the affairs of the Company and in the use and preservation of its property and assets, and the highest obligations of fair dealing.

66. The Individual Defendants, because of their positions of control and

1 authority as directors and/or officers of the Company, were able to and did, directly
 2 and/or indirectly, exercise control over the wrongful acts complained of herein.

3 67. To discharge their duties, the officers and directors of the Company were
 4 required to exercise reasonable and prudent supervision over the management,
 5 policies, practices, and controls of the Company. By virtue of such duties, the officers
 6 and directors of Company were required to, among other things:

- 7 - exercise good faith to ensure that the affairs of the Company were conducted
 8 in an efficient, business-like manner so as to make it possible to provide
 9 the highest quality performance of their business;
- 10 - exercise good faith to ensure that the Company was operated in a diligent,
 11 honest, and prudent manner and complied with all applicable federal and
 12 state laws, rules, regulations, and requirements, and all contractual
 13 obligations, including acting only within the scope of its legal authority;
 14 and
- 15 - when put on notice of problems with the Company's business practices and
 16 operations, exercise good faith in taking appropriate action to correct the
 17 misconduct and prevent its recurrence.

18 68. In addition, certain Individual Defendants assumed enhanced duties and
 19 responsibilities through their membership on the Audit Committee. The
 20 responsibilities of members of that committee includes: reviewing the adequacy of
 21 internal controls, external and internal auditing programs, business ethics, and
 22 compliance with laws, regulations, and policies that may have a material impact on
 23 the consolidated financial statements.

24 **VI. CONSPIRACY, AIDING AND ABETTING, AND CONCERTED ACTION**

25 69. In committing the wrongful acts alleged herein, the Individual
 26 Defendants have pursued, or joined in the pursuit of, a common course of conduct, and
 27 have acted in concert with and conspired with one another in furtherance of their
 28 common plan or design. In addition to the wrongful conduct herein alleged as giving

1 rise to primary liability, the Individual Defendants further aided and abetted and/or
2 assisted each other in breaching their respective duties.

3 70. During all times relevant hereto, the Individual Defendants, collectively
4 and individually, initiated a course of conduct that was designed to and did enhance
5 the Individual Defendants' executive and directorial positions at the Company and the
6 profits, power, and prestige that the Individual Defendants enjoyed as a result of
7 holding these positions. In furtherance of this plan, conspiracy, and course of conduct,
8 the Individual Defendants, collectively and individually, took the actions set forth
9 herein.

10 71. Each of the Individual Defendants aided and abetted and rendered
11 substantial assistance in the wrongs complained of herein. In taking such actions to
12 substantially assist the commission of the wrongdoing complained of herein, each
13 Individual Defendant acted with knowledge of the primary wrongdoing, substantially
14 assisted the accomplishment of that wrongdoing, and was aware of his or her overall
15 contribution to and furtherance of the wrongdoing.

16 **VII. CONTINUING COURSE OF CONDUCT, FRAUDULENT**
17 **CONCEALMENT AND EQUITABLE TOLLING**

18 72. During the Relevant Period, Defendants engaged in a continuing course
19 of conduct which continues to the present. During the entire Relevant Period, and
20 currently, Defendants have engaged in a continuous course of conduct designed to
21 breach their fiduciary duties, harm PG&E, and benefit themselves at the expense of
22 PG&E. That continuing course of conduct has included all the acts and omissions
23 alleged herein, including causing PG&E to underspend on pipeline safety and
24 maintenance, consciously ignore urgent needs for pipeline maintenance, engage in
25 misleading conduct with respect to investigations of the San Bruno explosion and
26 other safety violations, destroy documents, retaliate against employees who
27 recommended conduct designed to bring PG&E into compliance with the law, make
28 misrepresentations to shareholders of the Company regarding the effectiveness of

Board oversight of management and the appropriateness of shareholder proposals, and obstruct the NTSB investigation. Plaintiff did not discover and could not have discovered, through the exercise of due diligence, Defendants' breaches of their fiduciary duties or their violations of California law because Defendants did not disclose, and actively concealed, the full extent of their wrongdoing.

73. Plaintiff was unaware of and had no knowledge of Defendants' obstruction of the NTSB investigation. Similarly, Plaintiff was unaware of and had no knowledge of Defendants' conduct in causing PG&E to order employees to destroy documents relevant to the San Bruno explosion. This misconduct was not capable of discovery until at least July 1, 2014, when the government filed a Superseding Indictment against PG&E which asserted a new criminal charge of obstruction of justice. Moreover, even then, the documents publicly available were not sufficient to adequately apprise Plaintiff of the specific role of each defendant named herein in the wrongdoing.

74. Plaintiff could not have discovered Defendants' breaches of fiduciary duties and violations of law prior to filing suit because Defendants made absolutely no disclosure of their wrongdoing in the Company's public filings.

75. Moreover, Defendants not only failed to disclose any information whatsoever that would have allowed Plaintiff, exercising due diligence, to discover the unlawful conduct, but Defendants also intentionally concealed and attempted to disguise the unlawful conduct to avoid detection. Such conduct included, among other things, destroying documents and instructing employees to obstruct investigations into the wrongdoing.

VIII. SUBSTANTIVE ALLEGATIONS

A. The Individual Defendants Instilled a Culture of Putting Profits Before Safety

1. PG&E misappropriated millions from customers and consistently cut its budget for maintenance of transmission and distribution lines

1 76. During the Relevant Period, PG&E collected hundreds-of-millions of
2 dollars from customers for pipeline and infrastructure maintenance and safety.
3 Instead of spending such money on pipeline safety improvements, however, the
4 Individual Defendants caused PG&E to funnel the money to PG&E Corp. At the same
5 time, PG&E Corp. maintained quarterly cash dividends for common stock and cash
6 dividends from retained earnings, repurchased stock, and/or provided bonuses or
7 “incentives” to management and employees. In other words, instead of ensuring that
8 PG&E had a solid and well-maintained infrastructure that would be safe and
9 dependable for years to come, PG&E left itself vulnerable to an increased risk of a
10 catastrophic event at the same time the Individual Defendants approved lavish
11 executive bonuses and put the funds that were allocated to infrastructure maintenance
12 and safety to other uses. In particular, PG&E purportedly charged its customers \$5
13 million to fix the San Bruno pipeline in 2009, but delayed the repair, citing other
14 priorities. That same year, PG&E spent \$5 million on executive bonuses.

15 77. PG&E consistently cut its budget for maintenance of transmission and
16 distribution lines and other key infrastructure. Transmission pipelines are the major
17 pipelines that traverse the State of California. These are high pressure steel pipes that
18 carry gas from power stations.

19 78. Distribution pipelines are the smaller steel pipes that connect to the
20 transmission pipelines and carry gas to individual locations, such as homes and
21 businesses. This network of pipelines has been in operation for decades and requires
22 constant maintenance to ensure that they are safe.

23 79. PG&E has internal departments that are specifically responsible for
24 handling these pipelines. For example, one department would have experts,
25 employees, and staff who were focused on proper recordkeeping, assessments, and
26 maintenance of the transmission pipelines, and another department would be
27 responsible for the distribution pipelines.

28 80. Each year, these departments would determine how much money was

1 needed for evaluation, testing, maintenance and/or repairs of transmission and
2 distribution lines. These internal departmental budgets would go up the management
3 chain all the way to the Defendant directors and officers who were responsible for
4 formulating a central budget. These Defendants routinely cut the budgets of these
5 departments without any legitimate engineering basis for believing that the budgets
6 were too high and were not necessary to maintain the pipelines. Rather, these
7 Defendants routinely cut these budgets simply to increase PG&E's reported profits.
8 This was done to benefit the Individual Defendants and ensure that they remained in
9 their positions at PG&E and continued to reap substantial personal gain from their
10 positions.

11 81. Furthermore, year after year, PG&E misrepresented to the CPUC the
12 amount of funds necessary to maintain PG&E's infrastructure. PG&E is required to
13 make presentations to the CPUC about its needs in order to obtain monetary and other
14 assistance from the CPUC in order to ensure that PG&E has the financial resources to
15 maintain its pipeline network and infrastructure. For example, PG&E's presentations
16 to the CPUC affect the rates that PG&E can charge its customers. However, for years,
17 PG&E misrepresented the amount of money it would allot to operational and
18 maintenance needs.

19 82. Budgeting decisions and CPUC funding requests were done through the
20 executive management committee with the oversight and final authority of the PG&E
21 Corp. and PG&E Boards of Directors. The Individual Defendants in this case were the
22 top officers of PG&E Corp. and PG&E, members of the executive management
23 committee (which included both board members and officers) and the members of the
24 PG&E Corp. and PG&E Boards of Directors. All of them knew of and approved
25 PG&E's budgeting for safety and maintenance, and that PG&E was diverting resources
26 purportedly pledged to safety, operations and maintenance to other corporate purposes.
27 The Individual Defendants consistently spent less and less money on operations and
28 maintenance, fully aware of the dangerous risks they were creating and the probable

1 dangerous consequences of their failure to address the risk of a catastrophic loss
2 caused by PG&E's deficient transmission and distribution pipeline system.

3 **2. PG&E employees were incentivized not to report or**
4 **fix leaks**

5 83. PG&E implemented an incentive program in which PG&E employees
6 were given financial incentives not to report or fix leaks, or otherwise report any
7 dangerous conditions that would cost PG&E money to fix. PG&E had a program in
8 place in which supervisors and employees received bonuses for not reporting or fixing
9 gas leaks that they found, and for keeping repair costs down. In other words, PG&E
10 supervisors and employees had every incentive to pretend that leaks did not exist or
11 perform the least amount of work to fix any leaks that were detected. This backwards
12 incentive program is an example of the Defendants' "profits over safety" policies.

13 84. This program resulted in the failure to detect a significant number of
14 leaks, many of which were considered "serious" leaks. This incentive program was not
15 halted until the end of 2008, after the Rancho Cordova explosion. In 2008, PG&E
16 began rushing inspections of its gas pipeline network. These surveys found many more
17 leaks than had been detected in earlier surveys.

18 85. According to the CPUC, virtually every leak survey that PG&E had
19 conducted since 2004 was "not effective." The CPUC found that because of PG&E's
20 misconduct, the public would have to endure a "reduced level of safety" until the
21 inspections were complete.

22 86. Richard Kuprewicz, an independent pipeline safety expert, described
23 PG&E's incentive system as "a big, big deal" and "major, major problem." Kuprewicz
24 added that PG&E's bonus program was "training and rewarding people to do the wrong
25 thing" and was emblematic of "a seriously broken process." He went on to state that
26 this "explains many of the systemic problems in this operation that contributed to the
27 tragedy."

28 87. This bonus program was created and approved by the PG&E and PG&E

1 Corp. Boards of Directors in order to further the goal of cost reduction and short-term
 2 profit maximization without concern about the long-term ramifications of this decision.
 3 The Individual Defendants had intentionally and knowingly created a program in
 4 which the risk of a catastrophic incident would increase dramatically. Therefore, the
 5 Individual Defendants breached and violated the fiduciary duties they owed to PG&E
 6 and PG&E Corp.

7 **3. PG&E retaliated against and ignored allegations from**
 8 **a whistleblower warning of PG&E's low prioritization**
 9 **of safety**

10 88. In August 2010, Mike Wiseman, a PG&E gas mechanic working on the
 11 company's gas pipelines, filed a lawsuit against PG&E for retaliating against him for,
 12 among other things, making a protected disclosure under Labor Code § 1102.5(c).
 13 According to the lawsuit, Wiseman claims to have reported, and refused to participate
 14 in, the many unsafe practices he observed while working on the company's gas
 15 distribution system.

16 89. In March 2009, Wiseman reported that PG&E workers at the Panoche
 17 Road site were made to work in a ditch almost six feet deep, despite the fact that
 18 PG&E failed to provide the workers with the required training manual, suitable
 19 training, or proper equipment for the job. Wiseman also reported an incident in which a
 20 supervisor forged a deficient root cause analysis, in an attempt to make it appear as if
 21 it had been written by a qualified employee. Wiseman also complained about the
 22 falsification of safety records and other safety violations which are consistent with
 23 PG&E's 2007 internal audit and the 2008 CPUC safety audit.

24 90. Wiseman complained to PG&E's Director of California Gas Transmission,
 25 who purportedly referred the complaint to PG&E's Equal Employment Opportunity
 26 office, which took no action. On November 5, 2009, Wiseman notified PG&E's Senior
 27 Vice President and General Counsel of his legal claims against the company. After
 28 General Counsel learned of the complaints, which included serious allegations of safety
 problems at PG&E, this should have been investigated pursuant to the company's Code

1 of Business Conduct and Ethics. It apparently was not.

2 91. Instead of treating Wiseman's concerns seriously, PG&E excluded him
3 from the weekly safety leader's conference calls, even though he was a safety leader.
4 This is another example of PG&E putting profits before safety, in line with the
5 expectations of the Individual Defendants and the policies they implemented. In
6 addition, Wiseman was threatened with employee discipline, various forms of
7 retaliations, and ordered to submit to drug tests and psychiatric evaluations.

8 92. In March 2012, PG&E Senior Gas Engineer Todd Arnett testified in a
9 deposition that gas system managers routinely ignored the concerns expressed by
10 PG&E employees that the company relied on incomplete and inaccurate records
11 contained in its geographic information system. Arnett testified that, over the course
12 of several years, he raised the issue of poor data integrity to his supervisors, but his
13 concerns were ignored. The presence of six "pups"⁹ from an unknown source welded
14 together on the pipe segment which failed in San Bruno on September 9, 2010 would
15 have been noted on accurate geographic information system reports. This would have
16 prevented the tragedy that occurred in September 2010. According to experts, six pups
17 of unknown source welded together would have raised immediate red flags with
18 engineers. However, because of PG&E's notoriously incomplete and inaccurate
19 recordkeeping, the defect went unreported.

20 93. Internal company e-mails indicate the existence of flawed records for the
21 San Bruno pipeline. A March 2009 e-mail from PG&E engineer Drew Kelly indicates
22 that there were "tons of errors" in the geographic information system for transmission
23 Lines 101, 109, and 132. Those inaccurate records were relied upon to research long-
24 term management plans for Line 132. In its August 2011 report, the NTSB expressed
25 concern that PG&E's geographic information system still contained a large percentage
26 of assumed, unknown or erroneous information. That lack of complete or accurate

27 ⁹ "Pups" are short sections of pipe of 5 feet or less in length welded onto the
28 circumference of a larger pipe.

1 information prevented PG&E's IMP from being effective in preventing the San Bruno
 2 disaster and continues to hamper the ability of PG&E to appropriately identify and
 3 correct potential future disasters.

4 94. The allegations of Wiseman, Arnett and Kelly about poor and inaccurate
 5 record keeping at PG&E are consistent with the internal and external audits which
 6 found falsification of records, poor record keeping, and failure to properly train and
 7 equip workers. Each of these incidents and reports were warnings that PG&E should
 8 have paid attention to. If PG&E had taken appropriate action in response to these
 9 warnings, it could have prevented the San Bruno explosion. The Individual
 10 Defendants, through their mismanagement of PG&E, ignored serious red flags and
 11 continue to operate PG&E in a dangerous and unsafe manner.

12 **4. The Individual Defendants' culture of profits over**
 13 **safety have left ticking "time bombs" across Northern**
 14 **California**

15 95. PG&E's Senior Vice President of Engineering and Operations, who
 16 oversaw PG&E's ERM program, confirmed that the formal ERM program fell under
 17 the Chief Risk and Audit Officer but the operational ERM program (meaning day-to-
 18 day risk management in the field) was under his purview. He revealed that PG&E
 19 already realized by the Spring of 2007 that it needed to "shift culture," develop greater
 20 "operational discipline" and "build an integrity from top to bottom of the organization."
 21 When that same official reviewed PG&E's Enterprise Risk Management Program for
 22 Energy Delivery and Engineering and Operations shortly after joining PG&E in May of
 23 2007, he concluded: the program seemed "unactionable because almost everything is
 24 broken . . . need to triage." Presciently, he concluded that: ***"PG&E lacks a well-***
 25 ***defined documented risk policy/standard at the enterprise level. One that***
 26 ***explains PG&E's overall risk assessment methodology; defines the lines of***
 27 ***business roles and responsibility; specifies the requirements for performing***
 28 ***and documenting risks; links risk assessments to controls, self-assessment,***
reviews and audits; and specifies the requirements for metrics to track the

1 **risks.”** When the Senior Vice President of Engineering and Operations joined PG&E
2 in 2007, Defendants Darbee and Johns, on behalf of the PG&E Corp. and PG&E Boards
3 of Directors, informed him that PG&E’s risk management protocols were woefully
4 deficient.

5 96. Following the deadly gas pipeline explosion on September 9, 2010, in San
6 Bruno, PG&E has faced increasing demands to release internal company information
7 about any other dangerous sections of gas pipeline in northern and central California.
8 On September 20, 2010, PG&E reluctantly released a “top 100” list showing that
9 Northern Californians are sitting on a number of gas explosion “time bombs.” PG&E
10 refused repeated requests for the list of risky sites for days, invoking “security”
11 concerns. PG&E changed its mind three days after state energy regulators ordered
12 PG&E to hand it over with the intent of making it public.

13 97. The list shows high-priority pipeline segments clustered between
14 Livermore and Fremont, where significant ground movement during earthquakes is
15 likely. Isolated segments also appear throughout the Bay Area, in or near highly
16 populated areas such as San Rafael, Novato, Napa, San Pablo, San Carlos, Menlo Park,
17 Stanford University, Milpitas, and San Jose. However, only two of the sites on the list
18 have repairs or replacements underway.

19 98. CPUC commissioner Paul Clanon acknowledged that the list contains a
20 collection of “high-risk” sites. South San Francisco City Manager Barry Nagel told the
21 media that PG&E never told him about the risky sections of pipe sitting under the city:
22 “We found out about it in the newspaper.” The PG&E list was prepared based on data
23 from the end of 2009 and includes limited information about each of the dangerous
24 sections of gas pipeline, but it paints a frightening picture.

25 99. Included in the list is a section of gas pipeline stretching several dozen
26 miles from Tracy in the San Joaquin Valley to South Fremont in the San Francisco Bay
27 Area that has been deemed the “highest risk” section. This decrepit pipeline was
28 originally installed in 1930 and passes through several major population centers.

1 PG&E said in a prior funding request that 10 segments of the Tracy-Fremont line (Line
2 107) have a “high likelihood of design materials initiated failure.”

3 100. On Line 107, there is an especially hazardous section 10 miles long
4 between Livermore and Sunol. Company reports say the pipeline in this area is at risk
5 because of corrosion, aging materials and ground movement, according to the *Bay*
6 *Citizen*. Doug Burkhardt, who runs Livermore’s Smith Denison Construction Company,
7 which works with gas pipes, told the *Bay Citizen* that such old pipes do not have
8 “cathodic protection” to resist corrosion like most pipes made since the late 1960s,
9 when regulators began to require such protection.

10 101. Another six-mile stretch of gas pipeline between Salinas and Hollister is
11 included in PG&E’s “top 100.” PG&E cites “poor quality welds and outdated, low
12 quality main line valves” - eerily similar to the issues associated with the San Bruno
13 explosion - as the reason for the section’s inclusion. This line was also installed 80
14 years ago and crosses the San Andreas Fault. PG&E told the CPUC that the cost of
15 rerouting the line would be no more than \$8.5 million. This job, however, has been put
16 off until 2015.

17 102. Among the most disturbing sections on the list are a length of 4.3 miles in
18 Fremont - classified by PG&E as the second-highest risk line in the Bay Area - and
19 another 8-mile long section between Ripon and Stockton, which the company calls “the
20 highest risk pipeline in the San Joaquin Valley.” Of this section, PG&E says, “the
21 consequence of failure makes the risks unacceptably high.” Unacceptably high risks,
22 however, have not, as a general rule been a strong motivator for PG&E to act.

23 103. As evidence of PG&E’s ingrained lack of concern about safety, the
24 individual who was tasked with evaluating the San Bruno explosion and determining
25 what steps could be taken to prevent future tragedies of this nature, Kirk Johnson,
26 admitted that he did not even read the entire NTSB post-explosion investigatory report
27 regarding the San Bruno explosion. After the NTSB hearing, PG&E said it would “take
28 to heart” the findings of the NTSB “thorough and independent investigation” of the San

1 Bruno explosion. However, not only did Johnson fail to read the entire NTSB report,
2 he was not sure what PG&E had done specifically in response to the NTSB report to
3 prevent a future catastrophic incident.

4 **B. The San Bruno Incident**

5 104. PG&E is a pipeline operator that provides natural gas to customers
6 through the use of over 6,000 miles of natural gas transmission pipelines and over
7 40,000 miles of distribution pipelines. Gas transmission pipelines are highly-
8 pressurized, large-diameter lines that carry natural gas to smaller, less pressurized
9 distribution pipelines that bring natural gas into homes, commercial buildings, and
10 other facilities.

11 105. The Relevant Period begins in 2003 because that was the year, as
12 demonstrated below in detail, that PG&E began to intentionally take steps to
13 circumvent and violate federal safety rules and record-keeping requirements
14 applicable to its gas transmission lines and pipelines.

15 106. Line 132 was a high-pressure gas transmission pipeline owned and
16 operated by PG&E in the Northern District of California. Line 132 ran underground
17 from Milpitas, California, to San Francisco, California, passing through the City of
18 San Bruno, California.

19 107. Line 132 was originally installed in or about and between 1944 and 1948
20 and consisted of hundreds of individual segments, the majority of which were in
21 suburban or urban areas.

22 108. On September 9, 2010, at approximately 6:11 p.m., a portion of Line 132
23 (Segment 180) ruptured in a residential neighborhood of the City of San Bruno (the
24 "San Bruno explosion"). Gas escaping from the rupture ignited, causing a fire that
25 killed eight people and injured 58 others. The fire also damaged 108 homes, 38 of
26 which were completely destroyed.

27 ///

28 ///

C. The Individual Defendants Caused PG&E to Violate California and Federal Safety Regulations, Subjecting the Company to Billions of Dollars in Damages and Fines

109. PG&E is a public utility and thus subject to extensive state and federal regulation. In California, rules promulgated by the California Public Utility Commission (“CPUC”) govern the operation of gas pipelines. The rules are codified in General Order 112E, State of California Rules Governing Design, Construction, Testing, Operation, and Maintenance of Gas Gathering, Transmission, and Distribution Piping Systems, dated September 11, 1995.

110. Federal law dictates how gas pipelines should be built and operated, while allowing states to adopt additional requirements. The federal government delegates significant enforcement responsibilities to the states. In California, regulatory and enforcement authority rests with the CPUC.

111. The Natural Gas Pipeline Safety Act of 1968 (“PSA”) established minimum safety standards for pipeline transportation and for pipeline facilities. The purpose of the PSA was to protect against risks to life or property posed by pipeline transportation and pipeline facilities by improving the regulatory and enforcement authority of the Secretary of Transportation.

112. In 1970, pursuant to Chapter 601 of the PSA, the Secretary of Transportation issued regulations codified in Section 192 of Title 49 of the Code of Federal Regulations, Subparts A through M (“Section 192”).

113. In 1979, Congress amended the PSA to add criminal penalties for knowing and willful violations of any regulation or order issued pursuant to Chapter 601 of the PSA. 49 U.S.C. § 60123.

114. PHMSA is an agency within the Department of Transportation (“DOT”) that is responsible for ensuring that pipeline operators, such as PG&E, operate safely.

1 Pub. L. 108-426, 118 Stat. 2423 (Nov. 30, 2004).¹⁰ PHMSA is responsible for pipeline
 2 safety regulations and enforcement. In California, the CPUC is primarily responsible
 3 for enforcement of safety regulations.

4 115. PHMSA regulations make operators of gas transmission pipelines
 5 affecting a “high consequence area” (“HCA”), *e.g.* densely populated areas, responsible
 6 for assessing and ensuring the integrity of their pipelines. The regulations are
 7 designed to prevent the type of catastrophic incidents that occurred in Rancho
 8 Cordova in 2008 and San Bruno in 2010. ***Operators are required to develop and***
 9 ***adopt a written integrity management program (“IMP”)*** that addresses the risks
 10 on each segment of the pipeline.

11 116. An IMP is required to include, among other things:

- 12 • A Baseline Assessment Plan that: identifies potential threats to each
 13 covered segment; identifies methods to assess integrity based on the
 14 threats identified for each covered segment (*e.g.*, internal inspection,
 15 pressure testing, direct assessment, or other technology); identifies a
 16 schedule for completing the assessments including the risk factors
 17 used in determining schedule priorities; contains a direct assessment
 18 plan, if applicable (including the gathering and integration of risk
 19 factor data, indirect examination or analysis to identify areas of
 20 suspected corrosion, direct examination of the pipeline in these areas,
 21 and post assessment evaluation) appropriate for the threats identified
 22 for the covered segments; and includes a procedure for ensuring that
 23 the baselines assessments are conducted in a manner that minimizes
 24 environmental and safety risks;

26 ¹⁰ Congress amended the PSA by enacting the Pipeline Safety Improvement Act of
 27 2002 (“PSIA”). The Pipeline and Hazardous Materials Safety Administration (“PHMSA”) issued the Gas Transmission Integrity Management regulations (“IM regulations”), 49
 28 C.F.R. Part 192, referred to as Subpart 0, to implement the requirements of the PSIA.

- Identification of threats to each covered segment, including by the use of data integration and risk assessment;
- Provisions for remediating conditions found during integrity assessments;
- A process for continual evaluation and assessment;
- A confirmatory direct assessment plan, if applicable;
- A process to identify and implement additional preventive and mitigative measures;
- A performance plan including the use of specific performance measures;
- Recordkeeping provisions;
- Quality Assurance process;
- A Communication Plan; and
- Procedures for providing to regulatory agencies copies of the risk analysis or integrity management program.

117. A pipeline operator's IMP must document minimum qualification requirements for the following people: (i) supervisory personnel; (ii) persons who carry out integrity assessments and evaluate assessment results; and (iii) persons responsible for additional preventive and mitigative actions. A pipeline operator's IMP must also identify and evaluate all potential threats to the covered segment. The operator must collect and integrate data from the entire pipeline that could be relevant to the covered segment and conduct a risk assessment. If an operator identifies any of the following threats, it must take specific actions to address the threats:

- Third Party Damage - Operators must use data integration from the assessment of other threats to identify potential third party damage and take additional preventive and mitigative actions;
- Cyclic Fatigue - Operators must use cyclic fatigue analysis to

1 prioritize baseline assessments and reassessments;

- 2 • Manufacturing and Construction Defects - Operators must prioritize
- 3 a segment containing manufacturing or construction defects as high
- 4 risk segments unless it shows by analysis that the defect is stable and
- 5 that the risk of failure is low;
- 6 • ERW [Electric Resistance Welded] Pipe - Covered segments
- 7 containing low frequency electric resistance welded pipe or lap welded
- 8 pipe must be prioritized as a high risk segment for the baseline
- 9 assessment or reassessment, and assessed using technologies proved
- 10 to be capable of assessing seam integrity and of detecting seam
- 11 corrosion anomalies; and
- 12 • Corrosion - If corrosion is identified, all similar pipeline segments
- 13 (both covered and non-covered) with similar coating and
- 14 environmental characteristics must be evaluated and remediated, as
- 15 necessary.

16 118. With respect to the Baseline Assessment Plan, the IM regulations
 17 required pipeline operators to prepare, no later than December 17, 2004, a Baseline
 18 Assessment Plan (“BAP”) that identified all the pipeline operator’s covered segments,
 19 the known or potential threats to each covered segment, the methods selected to
 20 assess the integrity of the pipeline for each covered segment, and deadlines for
 21 conducting an initial assessment and re-assessment. 49 C.F.R. § 192.919.

22 119. Thereafter, pipeline operators like PG&E were required to complete the
 23 baseline assessment of 50% of their covered segments beginning with the highest risk
 24 segments, by December 17, 2007 and 100% of their covered segments by December 17,
 25 2012. High pressure gas pipelines (pipelines operating at above 30% SMYS (“Specified
 26 Minimum Yield Strength”)) must be reassessed pursuant to an allowable
 27 reassessment method at least every seven years. 49 C.F.R. § 192.939(a).

28 120. Once the known and potential threats were identified on a covered

1 segment, the IM regulations required pipeline operators to assess the integrity of the
2 pipeline in each covered segment by using an assessment method that was capable of
3 addressing the specific identified threats. 49 C.F.R. § 192.921(a). The four assessment
4 methods available to assess whether a covered segment was susceptible to the
5 identified threats were:

6 (1) Subpart J pressure testing: a method of testing the strength of a pipeline
7 by pressurizing a portion of the pipeline to a specified test pressure and
8 monitoring that portion of the pipeline for leaks or ruptures. The test
9 had to comply with the requirements of Subpart J of Section 192. When
10 the test was performed with a liquid, this method was also known as a
11 “hydrotest” or a “Subpart J hydrotest.” 49 C.F.R. § 192.921(a)(2).

12 i. Starting in 1970, all new gas transmission pipelines had to be
13 pressure tested or hydrotested before being placed into service in
14 order to ensure the pipeline’s integrity. Pursuant to Section 192.619
15 of Title 49 of the Code of Federal Regulations, gas transmission
16 pipelines installed before 1970 that were found to be in “satisfactory
17 condition” were grandfathered in and did not have to be pressure
18 tested or hydrotested unless otherwise required by law.

19 ii. A pressure test or hydrotest was the only assessment method that
20 could test the strength of a pipeline. Performing a pressure test or
21 hydrotest on a gas transmission pipeline necessitated the expense
22 and inconvenience of taking the pipeline out of service temporarily.

23 iii. Pressure testing or hydrotesting assessed the integrity of a pipeline
24 for such potential threats as external damage, external corrosion,
25 internal corrosion, stress corrosion cracking, and manufacturing and
26 construction threats, such as seam defects and seam corrosion.

27 (2) In-line inspection (“ILI”): a method of examining the internal
28 characteristics of a pipeline by sending a computerized inspection tool,

often called a “pig,” through the inside of the pipeline. 49 C.F.R. § 192.921(a)(1).

i. Like pressure testing or hydrotesting, ILI assessed the integrity of the pipeline for such potential threats as external damage, external corrosion, internal corrosion, stress corrosion cracking, and manufacturing and construction threats. ILI, however, could not test the actual strength of a pipeline.

(3) Direct assessment (“DA”): a process used to detect the presence of corrosion and assess the potential threat to the integrity of the pipeline. 49 C.F.R. § 192.921(a)(3). The three methods of DA were:

i. External corrosion direct assessment or “ECDA,” which tested the outside of pipelines for external corrosion and third party damage using an electrical or magnetic technology above ground and then following up with interspersed excavations to uncover the portions of the pipelines most likely to have external corrosion. Because ECDA only assessed the outside of pipelines, it could not assess the integrity of pipelines for potential internal threats such as manufacturing or construction defects;

ii. Internal corrosion direct assessment (“ICDA”), which tested for corrosion inside the pipeline; and

iii. Stress crack corrosion direct assessment (“SCCDA”), which was only applicable to pipelines operating over 60% of SMYS and thus not applicable in most HCAs.

(4) New Technology: any technology that a pipeline operator demonstrated could provide an understanding of a pipe’s condition that was equivalent to the understanding that could be gained using pressure tests or hydrotests, ILI, or DA. Operators could only use a new technology if PHMSA approved its use. 49 C.F.R. § 192.921(a)(4).

1 Regulations Related to the Prioritization of Manufacturing Threats

2 121. The IM regulations required operators to prioritize the risk level of
 3 covered segments in the BAP. 49 C.F.R. § 192.917(e)(3)(i)-(iii). Operators were
 4 required to prioritize covered segments with unstable manufacturing threats as “high
 5 risk.” Covered segments with manufacturing threats were considered unstable if the
 6 operating pressure of the pipeline containing that segment increased above the
 7 maximum operating pressure experienced by that segment in the five years before the
 8 segment was identified as being in an HCA (the “5-year MOP”), the maximum
 9 allowable operating pressure (“MAOP”) increased, or the stresses leading to cyclic
 10 fatigue increased. 49 C.F.R. § 192.917(e)(3)(i)-(iii).

11 122. Pipeline operators also had to prioritize as high risk and select an
 12 assessment method capable of assessing seam integrity and seam corrosion anomalies
 13 for covered pipeline segments that contained:

- 14 a) low-frequency electric resistance welded (“ERW”) pipe;
- 15 b) lap welded pipe; or
- 16 c) other pipe that satisfies the conditions specified in ASME/ANSI B31.8S,
 Appxs. A4.3 & A4.4; and had experienced either:
- 17 d) a seam failure; or
- 18 e) an increase in operating pressure over the 5-year MOP.

18 49 C.F.R. § 192.917(e)(4).

19 123. For pipelines with unstable manufacturing threats, operators had to use
 20 an assessment method that was capable of evaluating manufacturing threats, such as
 21 a hydrotest. 49 C.F.R. § 192.917(e)(3) and (4). ECDA could not be used because ECDA
 22 does not assess manufacturing threats. 49 C.F.R. § 192.923(a).

23 Regulations Related to Continuous Evaluation of Covered Pipeline Segments

24 124. Pipeline operators like PG&E were required to periodically evaluate the
 25 integrity of each covered segment. The periodic evaluation included considering and
 26 integrating past and present integrity assessment results, integrating data and
 27 assessing risk of the entire pipeline, and reviewing decisions regarding remediation,
 28

1 additional prevention, and mitigation actions. Operators were required to use the
2 results from these periodic evaluations to identify the threats specific to each covered
3 segment and the risk represented by these threats. 49 C.F.R. § 192.937.

4 125. After an initial assessment, pipeline operators had to re-assess their lines
5 using an assessment method capable of assessing a particular threat or combination of
6 threats including new threats, and within a certain time period depending on the
7 results the periodic evaluations, but not to 7 exceed seven years. 49 C.F.R. §§ 192.937
8 and 192.939.

9 Regulations Related to Strength Test Pressure Records

10 126. Pipeline operators were required to pressure test the strength of certain
11 pipelines newly installed or returned to service after 1970. 49 C.F.R. §192.503.
12 Specifically, pressure tests were required for (a) segments of steel pipelines that
13 operated at a hoop stress of 30 percent or more of the SMYS (49 C.F.R. § 192.505), and
14 (b) segments of steel pipelines that operated below 30 percent of SMYS, but at a
15 pressure greater than 100 psi (49 C.F.R. § 192.507).

16 127. Pipeline operators were also required to keep records of the pressure tests
17 conducted pursuant to Sections 192.505 and 192.507 for the useful life of the pipeline.
18 49 C.F.R. § 192.517(a). The test records were required to contain at least the following
19 information:

20 the test medium used;
21 the test pressure;
22 the test duration;
23 pressure recording charts;
24 elevation variations, if significant;
leaks and failures noted and their disposition, and
the name of the employee performing the test.

25 PG&E's Practices Relating to Gas Transmission Pipelines

26 **General Recordkeeping**

27 128. Starting at a time unknown to Plaintiff, and continuing until the San
28 Bruno explosion, the Individual Defendants learned that PG&E did not have complete

1 data for its gas transmission pipelines due to missing records and errors and
2 omissions in existing records.

3 129. The Individual Defendants received notice of PG&E's recordkeeping
4 problems through employees, through regulatory agencies including the National
5 Transportation Safety Board ("NTSB") and the California Public Utilities Commission,
6 and from third party auditors and consultants.

7 130. Despite knowledge of these deficiencies, the Individual Defendants failed
8 to cause PG&E to create a recordkeeping system for gas operations that would ensure
9 that pipeline records were accessible, traceable, verifiable, accurate, and complete.

10 PG&E's recordkeeping deficiencies included:

- 11 • PG&E did not maintain accurate and complete leak records for its gas
12 transmission pipelines.
- 13 • PG&E did not maintain accurate and complete records regarding
14 encroachment of population along gas transmission pipelines.
- 15 • PG&E did not maintain repair records for its gas transmission pipelines
16 in a traceable and accessible manner.
- 17 • PG&E did not retain or maintain weld maps and weld inspection records
18 for its gas transmission pipelines.
- 19 • PG&E did not maintain complete records of the manufacturer of its gas
20 transmission pipelines in service.
- 21 • PG&E did not retain or maintain Subpart J pressure test records for the
22 life of all of its gas transmission pipelines.
- 23 • PG&E did not maintain accurate, complete, or accessible "job files," that
24 contained, among other things, pipe specifications, construction records,
25 pressure test records, and purchasing records.

26 Integrity Management Program

27 131. In the late 1990s, in advance of the enactment of the IM regulations,
28 PG&E created a computer database called the Geographic Information System (the

1 “GIS database”). PG&E intended that the GIS database would contain information
 2 about each natural gas transmission pipeline segment, such as pipe specifications and
 3 pressure test data, and would be used to make integrity management decisions.

4 132. To create the GIS database, PG&E relied on pipeline survey sheets that
 5 contained erroneous and incomplete information. In creating the GIS database, PG&E
 6 undertook no quality control or quality assurance to ensure the data taken from the
 7 pipeline survey sheets was accurate. From GIS’s inception, PG&E was aware that the
 8 database contained erroneous and incomplete information.

9 133. PG&E relied on information in the GIS database to make integrity
 10 management decisions, including the identification of threats to each covered segment
 11 contained in the initial BAP.

12 Threat Identification

13 134. In identifying and evaluating threats as required by Sections 192.917(a)
 14 and (b), PG&E failed to gather and integrate all relevant data for many of its older
 15 transmission lines, including, but not limited to:

- 16 • past incident history for both covered and non-covered segments,
 17 including leaks with unknown causes (“unknown” because PG&E either
 18 had no records, or could not or did not locate such records);
- 19 • pipeline history for covered and non-covered segments that were greater
 20 than one mile away from the covered segments being analyzed for
 21 manufacturing and construction threats;
- 22 • maintenance history, including repairs;
- 23 • accurate and complete pipeline data, including wall thickness, diameter,
 24 seam type, manufacturer, and date of manufacture;
- 25 • pressure fluctuations;
- 26 • validated normal, maximum, and minimum operating pressures;
- 27 • threats created by cyclic fatigue; and
- 28 • threats created by internal corrosion.

1 **Assessment Method Selection**

2 135. PG&E relied on inaccurate and incomplete records to select assessment
3 methods to assess the integrity of covered segments for known or potential threats as
4 required by Section 192.921(a).

5 136. In 2004, PG&E created a written policy on compliance with the IM
6 regulations regarding data gathering that instructed PG&E employees to rely on
7 available, verifiable information or “information that c[ould] be obtained in a timely
8 manner.”

9 137. In 2004, PG&E also created a written policy that proscribed, with certain
10 limited exceptions, the use of hydrotesting or pressure testing as an assessment
11 method for assessing the integrity of covered segments. Pursuant to this policy, the
12 only two options (other than a PHMSA-approved new technology) for assessing threats
13 on covered segments were ILI and ECDA. PG&E instituted this policy having
14 determined that, due to economic considerations and the physical attributes of its
15 transmission lines, ILI was not a feasible assessment method for approximately 80%
16 of its transmission lines that were subject to the IM regulations.

17 138. For the approximately 80% of the gas transmission pipelines where
18 PG&E determined that ILI was not economically or physically feasible, PG&E selected
19 ECDA to assess threats on those pipelines. PG&E chose ILI as an assessment method
20 for the approximately 20% of its remaining natural gas transmission pipelines.

21 139. The Individual Defendants who contributed to the wrongdoing during
22 this time period include:

23 (a) Defendant Harvey, who has worked for PG&E and PG&E Corp. at all
24 relevant times, including for the past 33 years. Harvey served as PG&E Corp.’s Senior
25 Vice President, CFO, and Treasurer from January 2000 to September 2005, and also
26 served as PG&E’s Senior Vice President and Chief Risk and Audit Officer from October
27 2005 to July 2009. Harvey also later served as PG&E Corp.’s CFO until January 1, 2016
28

1 and continues to serve as PG&E Corp.'s Senior Vice President, Finance.¹¹ Defendant
2 Harvey knowingly, recklessly, or with gross negligence allowed PG&E to violate the
3 CPUC and PHMSA regulations by failing to implement and/or maintain adequate
4 internal controls with respect to the Company's compliance with CPUC and PHMSA
5 regulations.

6 (b) Defendant Christopher P. Johns ("Johns"), who is and has been a director of
7 PG&E since February 2010, as well as the Company's President since August 2009.
8 Defendant Johns was also PG&E's Senior Vice President, Financial Services from May
9 2009 to July 2009; Senior Vice President and Treasurer from October 2005 to April 2009;
10 Chief Financial Officer ("CFO") from October 2005 to May 2007; and Vice President and
11 Controller from June 1996 to December 1999. Defendant Johns was PG&E's CFO from
12 January 2005 to July 2009; a Senior Vice President from September 2001 to July 2009;
13 Treasurer from October 2005 to April 2009; Controller from July 1997 to October 2005;
14 and a Vice President from July 1997 to September 2001. Due to the Company's extensive
15 gas distribution and transmission line operations, defendant Johns knew that PG&E was
16 subject to regulation from the CPUC and Pipeline and hazardous Materials Safety
17 Administration ("PHMSA") and guidelines for operators of natural gas pipelines in areas
18 that could affect human safety. Defendant Johns also knew that, under the CPUC and
19 PHMSA regulations, PG&E was required to implement an internal control system to
20 ensure the implementation of an integrity management program ("IMP") to ensure the
21 identification and remediation of risks to the Company's pipelines in areas that could
22 affect human safety. In his capacity as a director, defendant Johns was specifically
23 charged with overseeing the Company's risk management practices, including ensuring
24 compliance with an IMP. Defendant Johns knowingly or recklessly allowed PG&E to
25 violate the CPUC and PHMSA regulations by failing to implement and/or maintain

26
27 ¹¹ On November 6, 2015, PG&E Corp. announced that Harvey would be replaced as
28 CFO by Jason P. Wells effective January 1, 2016, but will continue to serve as PG&E
Corp.'s Senior Vice President, Finance, until approximately June 30, 2016.

1 adequate internal controls with respect to the Company's compliance with CPUC and
2 PHMSA regulations.

3 (c) Defendant Dinyar B. Mistry ("Mistry"), who was PG&E Corp.'s Vice
4 President, Regulation and Rates from November 2005 to December 2008, and who is
5 PG&E Corp.'s CFO and has been since October 2011 and PG&E and PG&E Corp.'s Vice
6 President and Controller and has been since March 2010. Defendant Mistry was also
7 PG&E's Vice President and Chief Risk and Audit Officer from August 2009 to March
8 2010; PG&E Corp.'s Vice President and Chief Risk and Audit Officer from September
9 2009 to March 2010; PG&E's Vice President, Internal Auditing/Compliance and Ethics
10 from January 2009 to July 2009. Due to Company's extensive gas distribution and
11 transmission line operations, defendant Mistry knew that PG&E was subject to
12 regulation from the CPUC and PHMSA guidelines for operators of natural gas pipelines
13 in areas that could affect human safety. Defendant Mistry also knew that, under the
14 CPUC and PHMSA regulations, PG&E was required to implement an internal control
15 system to ensure the implementation of an IMP to ensure the identification and
16 remediation of risks to the Company's pipelines in areas that could affect human safety.
17 In his capacity as a director, defendant Mistry was specifically charged with overseeing
18 the Company's risk management practices, including ensuring compliance with an IMP.
19 Defendant Mistry knowingly, recklessly, or with gross negligence allowed PG&E to violate
20 the CPUC and PHMSA regulations by failing to implement and/or maintain adequate
21 internal controls with respect to the Company's compliance with CPUC and PHMSA
22 regulations.

23 (d) Defendant C. Lee Cox, who has been a director of PG&E and PG&E Corp. at
24 all relevant times, and at least since 1996, and who has served as PG&E and PG&E
25 Corp.'s Lead Director and PG&EC's non-executive Chairman of the Board since
26 September 2011. Defendant Cox was also PG&E's interim Chairman, Chief Executive
27 Officer ("CEO"), and President from May 2011 to September 2011; PG&E Corp.'s non-
28 executive Chairman of the Board from January 2008 to April 2011; and lead director of

1 PG&E and PG&E Corp. from April 2004 to April 2011. Defendant Cox is Chairman of
2 PG&E's Compensation Committee and a member of PG&E's Finance Committee and has
3 been since September 2011. Defendant Cox was also Chairman of PG&E's Compensation
4 Committee from at least March 2005 to May 2011, a member of that committee from at
5 least March 2003 to May 2011, and a member of PG&E's Finance Committee from at least
6 March 2004 to May 2011. Defendant Cox served as Chairman of the Audit Committees of
7 PG&E and PG&E Corp. until at least March 2004. Due to the Company's extensive gas
8 distribution and transmission line operations, defendant Cox also knew that PG&E was
9 subject to regulation from the CPUC and PHMSA guidelines for operators of natural gas
10 pipelines in areas that could affect human safety. Defendant Cox also knew that, under
11 the CPUC and PHMSA regulations, PG&E is required to implement an internal control
12 system to ensure the implementation of IMP to ensure the identification and remediation
13 of risks to the Company's pipelines in areas that could affect human safety. In his
14 capacity as a director, defendant Cox was specifically charged with overseeing the
15 Company's risk management practices, including ensuring compliance with an IMP.
16 Defendant Cox knowingly or recklessly allowed PG&E to violate the CPUC and PHMSA
17 regulations by failing to implement and/or maintain adequate internal controls with
18 respect to the Company's compliance with CPUC and PHMSA regulations.

19 (e) Defendant Barry Lawson Williams ("Williams"), who has been a PG&E
20 director at all relevant times, including since at least 1996, and a PG&E Corp. director
21 since 1990. Defendant Williams is also Chairman of the Audit Committees of PG&E and
22 PG&E Corp. and has been since at least March 2005 and a member of those committees
23 and has been since March 2003. Defendant Williams is a member of PG&E's
24 Compensation Committee and has been since at least March 2005 and a member of
25 PG&E's Finance Committee and has been since at least March 2004. Due to Company's
26 extensive gas distribution and transmission line operations, defendant Williams knew
27 that PG&E was subject to regulation from the CPUC and PHMSA guidelines for
28 operators of natural gas pipelines in areas that could affect human safety. Defendant

1 Williams also knew that, under the CPUC and PHMSA regulations, PG&E is required to
2 implement an internal control system to ensure the implementation of an IMP to ensure
3 the identification and remediation of risks to the Company's pipelines in areas that could
4 affect human safety. In his capacity as a director, defendant Williams was specifically
5 charged with overseeing the Company's risk management practices, including ensuring
6 compliance with an IMP. Defendant Williams knowingly or recklessly allowed PG&E to
7 violate the CPUC and PHMSA regulations by failing to implement and/or maintain
8 adequate internal controls with respect to the Company's compliance with CPUC and
9 PHMSA regulations.

10 (f) Defendant Barbara L. Rambo ("Rambo"), who is a PG&E and PG&E Corp.
11 director and has been since January 2005. Defendant Rambo has also been a member of
12 PG&E's Finance Committee since January 2005 and Chairman of such committee since
13 May 2008. Defendant Rambo is a member of PG&E's Compensation Committee and has
14 been since January 2005 and was Chairman of that committee from May 2011 to
15 September 2011. Due to the Company's extensive gas distribution and transmission line
16 operations, defendant Rambo knew that PG&E was subject to regulation from the CPUC
17 and PHMSA guidelines for operators of natural gas pipelines in areas that could affect
18 human safety. Defendant Rambo also knew that, under the CPUC and PHMSA
19 regulations, PG&E was required to implement an internal control system to ensure the
20 implementation of an IMP to ensure the identification and remediation of risks to the
21 Company's pipelines in areas that could affect human safety. In her capacity as a
22 director, defendant Rambo was specifically charged with overseeing the Company's risk
23 management practices, including ensuring compliance with an IMP. Defendant Rambo
24 knowingly or recklessly allowed PG&E to violate the CPUC and PHMSA regulations by
25 failing to implement and/or maintain adequate internal controls with respect to the
26 Company's compliance with CPUC and PHMSA regulations.

27 ///

28 ///

1 **Assessment Avoidance on Older Transmission Lines**

2 **Planned Pressure Increases**

3 140. When the IM regulations went into effect, the Individual Defendants
4 knew that thousands of miles of PG&E's gas transmission pipelines had never been
5 subjected to a Subpart J pressure test, because the pipelines were installed before
6 1970 and were grandfathered in or because PG&E had not maintained a record of such
7 a pressure test. As PG&E knew, many of these pipelines had a known or potential
8 manufacturing threat due to their age, manufacturer, and/or history.

9 141. In order to maintain the then-current operating pressures of these
10 pipelines without having to subject the pipelines to a Subpart J pressure test, PG&E
11 adopted a practice in 2003 called planned pressure increases ("PPIs"). To conduct a
12 PPI, PG&E intentionally raised the pressure in several old highly-pressurized gas
13 transmission pipelines located in HCAs to the pipelines' maximum allowable operating
14 pressures' (MAOP) for two hours. In so doing, PG&E at times exceeded the lines' 5-
15 year MOPs and/or MAOPs. PG&E failed to review the history of the pipelines or
16 verify the accuracy of its data prior to executing the PPIs to determine whether
17 intentionally increasing the pressure on these older pipelines would affect the
18 integrity of the pipeline. PG&E periodically conducted PPIs from 2003 until the San
19 Bruno explosion.

20 142. PG&E executed PPIs on a number of its high pressure gas transmission
21 pipelines, including lines 132, 101, 107, and 109, all of which had covered segments
22 with manufacturing threats that had never been subject to a Subpart J pressure test
23 or for which records of such a test were not available. From 2002 until the San Bruno
24 explosion, PG&E assessed these pipelines with ECDA.

25 **Unplanned Pressure Increases**

26 143. PG&E was aware that hundreds of covered segments totaling over 80
27 miles of gas transmission pipelines had never been subject to a Subpart J pressure
28 test and had manufacturing threats that could be considered unstable due to planned

1 and/or unplanned pressure increases that exceeded the pipelines' respective 5-year
2 MOPs. These covered segments were found on numerous gas transmission pipelines
3 operated by PG&E, including, but not limited to, segments on Lines 132, 153, 109,
4 191-1 and 7 DFM 1816-01.

5 144. Section 192.917(e) required PG&E to prioritize the covered segments
6 with unstable manufacturing threats as high risk and assess them using an
7 assessment method that evaluated the integrity of the covered segment to determine
8 the risk of failure from the unstable manufacturing threats, such as a Subpart J
9 pressure test. For all of these covered segments, despite knowledge of the
10 requirements of Section 192.917(e), PG&E chose not to reprioritize these pipelines as
11 high risk and/or properly assess the integrity of each segment to determine the risk of
12 failure. Instead, PG&E continued to choose ECDA to assess the integrity of these
13 pipelines even though PG&E knew ECDA did not assess unstable manufacturing
14 threats.

15 145. To avoid having to prioritize these pipelines as "high risk" and properly
16 assess the pipelines for the known threats, PG&E chose only to consider a
17 manufacturing threat unstable if the pressure on the pipeline exceeded the 5-year
18 MOP by 10% or more. This practice was documented in PG&E's Integrity
19 Management program as Risk Management Instruction-06, and was known to
20 members of Integrity Management as RMI-06. PG&E adopted and implemented this
21 approach despite knowing that it was in direct contravention of Section 192.917(e) and
22 guidance issued by PHMSA in or about 2004 and 2005 in the form of frequently asked
23 questions and answers ("FAQs"). In FAQ 221, PHMSA made clear that "any pressure
24 increase, regardless of amount," destabilized a manufacturing threat and required
25 PG&E to prioritize the pipeline as high risk and to properly assess the pipeline PG&E
26 maintained this practice until April 2011.

27 Line 132

28 146. When identifying threats on Line 132, and when determining the

1 appropriate assessment technology to use in evaluating those threats, PG&E did not
 2 know the thickness of the pipeline walls for approximately 42% of Line 132, either
 3 because PG&E did not have records describing wall thickness or it could not or did not
 4 access records with this information.

5 147. PG&E did not know the manufacturer for approximately 80% of the
 6 hundreds of segments on Line 132 either because PG&E did not have such records, or
 7 could not or did not access such records with this information.

8 148. PG&E did not know the depth of cover for approximately 80% of Line 132
 9 because PG&E did not have such records, or could not or did not access such records
 10 with this information.

11 149. PG&E used improper yield strength or SMYS values for several segments
 12 of pipe on Line 132 with unknown yield strengths.

13 Segment 180

14 150. Segment 180, the portion of Line 132 that ruptured, was located in an
 15 HCA and ran through a densely populated suburban development in the City of San
 16 Bruno. Segment 180 consisted of six short lengths or “pups” of 30-inch diameter pipe
 17 along with normal lengths of pipe. The date of manufacture of these pups is unknown,
 18 but the manufacture date was prior to 1956. The pups were welded together and
 19 installed in approximately 1956 in a manner that violated industry standards
 20 concerning fabrication of gas transmission pipelines in effect at the time. One or more
 21 of the pups had a defective seam weld. The segment, in part due to the defective pup
 22 or pups, had a yield strength significantly less than the yield strength that PG&E
 23 recorded and relied upon for integrity management purposes.

24 151. PG&E’s records reflected the following for Segment 180:

- 25 • The pipe was seamless.
- 26 • The SMYS was 42,000 psi.
- 27 • The depth of cover was unknown.
- 28 • The manufacturer of the pipe was unknown.
- The manufacture date of the pipe was 1956.
- A pressure test had been performed in 1961.

- The MAOP was 400 psi.

152. In fact, the pipe in Segment 180 was seamed, not seamless. The SMYS was unknown, but measured after the San Bruno explosion at significantly less than 42,000 psi for four of the six pups. The pipe manufacturer date was unknown, but occurred well before 1956. No records of a pressure test existed showing that any pressure test, let alone a Subpart J pressure test, had been performed on Segment 180. Other records in PG&E's files also showed the MAOP for Line 132 as 375 and 390 psi.

153. At no time between installation of the defective pup or pups and the San Bruno explosion did PG&E check or confirm whether its records accurately reflected the data relevant to assessing the integrity of Segment 180, even though PG&E knew that GIS contained incomplete and inaccurate data.

Integrity Management For Line 132

154. PG&E identified segments of Line 132 as being in an HCA in 2002 and began conducting ECDA on Line 132 in 2002. PG&E also conducted ECDA on Line 132 in 2003, 2004, 2006, 2007, 2009, and 2010.

155. In identifying the threats that existed on Line 132 and choosing an assessment method to assess those identified threats, the Individual Defendants caused PG&E to knowingly rely on erroneous and incomplete information from the GIS database and to fail to gather and integrate, among other things, the following data and information:

- Leak data, including the cause of over 30 prior leaks on segments of Line 132; instead PG&E adopted a practice that it would not consider leaks with "unknown" causes when deciding if ECDA was a proper assessment method;
- Industry and PG&E data that showed that double submerged arc weld "DSAW" pipe manufactured by Western Consolidated Steel, which was found on segments of Line 132, including Segment 181, had pipe body and longitudinal seam defect issues;

- A seam weld defect in DSAW pipe that was discovered on a different segment of Line 132, and was similar to pipe on both Segment 180 and Segment 181, and was repaired in 1988;
- Multiple longitudinal seam cracks found during radiography of girth welds on portions of Line 132 that were constructed in 1948;
- A longitudinal seam weld defect in DSAW pipe discovered on a different segment of Line 132 in 1992 when a tie-in girth weld was radiographed;
- A defective weld found on Segment 186 of Line 132 in 2009. The segment was originally fabricated by Consolidated Western using pipe similar to Segment 180 and Segment 181 and installed in 1948, at or near the time when Segment 180 was originally installed;
- A field girth weld defect found on Segment 189 in 2009. Segment 189 was also originally fabricated by Consolidated Western using DSAW pipe installed in 1948;
- Whether any salvaged or re-used pipe, for which PG&E did not keep records, including manufacturer, dates of use, and history of the pipe, had been used on Line 132;
- Documents related to the design, manufacturer, construction, or testing of Segment 180 when it was relocated in 1956, including whether any salvaged pipe was used;
- Information from the 1956 construction file related to the six pups installed on Segment 180 by PG&E;
- The potential impact of cyclic fatigue or other loading conditions on Line 132 from planned or unplanned pressure fluctuations; and
- Additional construction defects on Line 132.

Integrity Management for Other Transmission Lines

156. The Individual Defendants also caused PG&E to knowingly fail to gather and integrate the following relevant data from similar gas transmission pipeline segments as required by 49 C.F.R. § 192.917(b):

- A seam leak in DSAW pipe found on Line 3008 in 1958;
- A root cause analysis for an explosion on Line 109 in 1963;
- A 1977 report concerning a leak on the long seam of Line 109;
- A characterization evaluation of nearby Line 109 girth welds in 1994;
- A Subpart J pressure test failure in 1974 of a seam weld with lack of penetration on DSAW pipe found on Line 3008, and which was similar to DSAW pipe found on Segment 180 and Segment 181;

- Laboratory test reports from 1975 relating to Line 101 girth welds; and
- Cracking of a seam weld in DSAW pipe in 1996 on Line 109 which paralleled Line 132.

157. Relying on inaccurate and incomplete information regarding the pipeline attributes and history of Lines 132 and 109, the Individual Defendants caused PG&E to knowingly choose ECDA as the assessment method to assess the integrity of covered segments on Line 132, including Segment 180, starting in 2002 and for Line 109 starting in 2003, and continuing until the San Bruno explosion.

158. In 2003 and again in 2008, as part of PG&E's PPIs, PG&E intentionally raised for a two-hour period the pressure of Line 132 at least 25 psi above the normal operating pressure the pipeline had experienced for decades in order to maintain a current MOP for Line 132 without having to conduct a Subpart J pressure test. PG&E undertook this practice without conducting any review of the pipeline's history, including past leaks and the cause of such leaks, or verification of the pipeline's specifications in order to assess whether intentionally increasing the pressure on Line 132 more than 25 pounds higher than the line had experienced in decades would affect the integrity of the pipeline.

159. On July 23, 2009, Line 132, at a point north of Segment 180, experienced an unplanned pressure increase that exceeded that segment's 5-year MOP. That segment of Line 132 had a known manufacturing threat that was destabilized when the pipeline experienced this pressure increase. Despite knowledge of this pressure excursion and the requirement to properly assess unstable manufacturing threats, PG&E chose to assess that segment of Line 132 in 2009 using ECDA even though PG&E knew that ECDA could not assess unstable manufacturing threats.

D. The Individual Defendants Cause PG&E To Obstruct The NTSB's Investigation

160. The NTSB is an independent federal agency dedicated to promoting aviation, railroad, highway, marine, pipeline, and hazardous materials safety. Established in 1967, the agency is mandated by Congress through the Independent

1 Safety Board of 1974 to investigate transportation accidents, determine the probable
2 cause of accidents, issue safety recommendations, study transportation issues, and
3 evaluate the safety of government agencies involved in transportation. The NTSB
4 makes public its actions and decisions through accident reports, safety studies, special
5 investigation reports, safety recommendations, and statistical reviews.

6 161. The NTSB began an investigation immediately after the San Bruno
7 explosion on September 9, 2010. NTSB investigators were on-site for approximately
8 two weeks after the explosion. In addition, NTSB investigators issued numerous
9 requests for information and documents, interviewed witnesses, examined the
10 ruptured pipe and the events leading to the explosion, and held three days of public
11 hearings. The NTSB issued a public report on or about August 30, 2011, and
12 concluded, among other things, that PG&E's Integrity Management program was both
13 deficient and ineffective, and was a probable cause of the accident.

14 162. The NTSB's investigation revealed that among other deficiencies, PG&E's
15 records related to the establishment and calculation of the MOP and MAOP for Line
16 132 were incomplete and inaccurate. As a result, on January 3, 2011, the NTSB
17 issued three safety recommendations, two of which were designated "urgent." The
18 first urgent recommendation directed PG&E to "[a]ggressively and diligently search"
19 for records related to pipelines in HCAs that did not have the MAOP established
20 through prior hydrostatic testing. The second directed PG&E to calculate (based on
21 the records found in response to the first urgent recommendation) the valid MAOP for
22 pipelines that did not have the MAOP established through hydrostatic testing.

23 163. Additionally, in or about September 2010, through in or about December
24 2010, the NTSB sent PG&E a series of data requests concerning instances where
25 PG&E's planned and unplanned pressure increases exceeded the 5-year MOPs and/or
26 MAOPs of pipelines in HCAs.

27 164. On February 22, 2011, as part of its response to the NTSB's data
28 requests, PG&E attached a version of RMI-06 that provided that PG&E would only

1 consider a manufacturing threat as unstable if the pressure on the line exceeded the
2 5-year MOP by 10% (“the 10% Version”). The cover sheet to the 10% Version indicated
3 that it was prepared in February 2008, and approved in March 2008.

4 165. As set forth above, beginning in or about 2009, PG&E adopted the
5 practice documented in the 10% Version, which was in direct contravention of Section
6 192.917(e) and guidance issued by PHMSA. The consequence of this practice was that
7 PG&E did not prioritize as high-risk, and properly assess, many of its oldest
8 transmission lines in HCAs, including Line 132, that had never been hydro tested
9 because of the grandfather clause.

10 166. On April 6, 2011, PG&E sent a letter to the NTSB, signed by Defendant
11 William D. Hayes, withdrawing the 10% Version sent in February 2011, claiming it
12 was an unapproved draft. The letter attached the original version of RMI-06 approved
13 in 2008, and a version of RMI-06 approved on April 5, 2011, neither of which included
14 the 10% language. In the letter, PG&E claimed it had recently discovered that the
15 10% Version submitted to the NTSB included the cover sheet for the original version
16 of RMI-06 approved in 2008, and that PG&E had no indication that the version with
17 the 10% language was ever approved.

18 167. Defendant Hayes, who signed the letter, reported at the time directly to
19 Geisha Williams, who is on the Board of Directors of PG&E. Geisha reported directly
20 at the time to Peter Darbee, who was PG&E Corp.’s CEO, President, and Chairman of
21 the Board. Both Hayes and Darbee were identified by the U.S. Attorney as expected
22 trial witnesses at the criminal trial set to commence March 22, 2016 in the
23 government’s Pre-Trial Conference Statement, filed February 22, 2016.¹² Upon
24 information and belief, given the gravity of the NTSB investigation and the fact that
25 eight people died in the San Bruno explosion, Hayes cleared his submissions to the
26 NTSB, including the February 22, 2011 and April 6, 2011 submissions, with both

27 ¹² The government’s February 22, 2016 Pre-Trial Conference Statement indicates that
28 Hayes’ April 6, 2011 letter is “at the heart of” the obstruction of justice charge.

1 Williams, Darby, and the PG&E Corp. Board of Directors before finalizing and
2 submitting them to the NTSB. Defendants and current Board Members Chew,
3 Herringer, Kimmel, Meserve, Miller, Parra, Williams, and Rambo, therefore, all of
4 whom were directors of PG&E Corp. at the time and responsible for the Company's
5 conduct with respect to the NTSB investigation, knew and approved of the misleading
6 submissions to the NTSB.

7 168. Moreover, the government has also deposed a former PG&E employee,
8 Leslie McNiece, who was hired after the 2010 San Bruno explosion to clean up the
9 Company's records. McNiece reported to Defendant Christopher P. Johns, who was
10 President of Pacific Gas & Electric Company at the time and also a member of its
11 Board of Directors.¹³ McNiece testified that PG&E Management instructed her to
12 **destroy records** relating to the San Bruno explosion, and that she also found a
13 tell-tale pre-blast analysis of the relevant pipeline in the garbage at PG&E. The
14 government has listed McNiece as a witness expected to be called at the criminal trial
15 commencing March 22, 2016 in San Francisco.

16 169. Specifically, the U.S. Attorney has indicated in court filings in the
17 criminal case pending in San Francisco that, in order to attempt to fulfill her job
18 responsibilities of rectifying PG&E's highly deficient recordkeeping system after the
19 San Bruno explosion, she was hired to start a new department called Information
20 Management Compliance. The purpose of this new department was to address the
21 highly deficient recordkeeping issues identified in the Duller-North Report.

22 170. The U.S. Attorney has stated that McNiece is expected to testify at the
23 criminal trial commencing March 22, 2016, that after drafting a new recordkeeping
24 policy and presenting it to PG&E management, Defendant Christopher P. Johns told
25
26

27 ¹³ Johns continued to serve as President of PG&E until December 31, 2015, when he
28 retired.

her that PG&E would not approve the policy.¹⁴ Johns stated to McNiece that if the policy had been approved, PG&E would immediately be out of compliance. McNiece is also expected to testify at trial about the pushback she received throughout her tenure at PG&E from management, who did not want her to improve PG&E's recordkeeping system.

171. The United States has also indicated that McNiece is also expected to testify at the criminal trial about specific instances when she received specific instructions to destroy documents, such as from PG&E V.P. of Gas Operations Sumeet Singh, and the financially-motivated pushback she received when she attempted to organize PG&E records or move them from an Iron Mountain storage facility. This "pushback" is direct evidence of the Individual Defendants' violations of recordkeeping deficiencies, including the specific conduct of the President of the Company, Defendant Johns.

172. McNiece has also indicated that, among the PG&E documents she found discarded in a dumpster, she found a Line 132 survey sheet with a notation on it which stated "leak info not in GIS." The notation was dated 12/8/2003. This note is probative of the fact that PG&E's GIS system was deficient, that the Individual Defendants were aware of the deficiencies, and that by discarding this original map, PG&E was failing to maintain records, as required, for the life of a pipeline.

173. Because of her efforts to do the right thing and bring PG&E into compliance with the law, McNiece was laid off in 2014, while Defendant Johns was still her supervisor and President of PG&E and a member of its Board.

E. PG&E Is Indicted Due To The Individual Defendants' Wrongdoing

174. On April 1, 2014, Pacific Gas and Electric Co. was indicted on 12 federal criminal counts related to the 2010 San Bruno gas pipeline explosion. The indictment

¹⁴ See United States of America Motions in Limine filed January 11, 2016, *U.S.A. v. Pacific Gas & Electric Co.*, Case No. CR 14-00175 THE (N.D. Cal.), Docket No. 236, at p. 10.

1 charged PG&E with failing to conduct required inspections that could have prevented
2 the disaster.

3 175. The indictment alleges that PG&E repeatedly violated the federal
4 Pipeline Safety Act, which mandates that operators maintain accurate records about
5 their gas pipes, identify risks to lines, and inspect or test when pipe pressures exceed
6 the legal maximum.

7 176. The indictment alleges that, rather than follow the law, PG&E
8 “knowingly relied on erroneous and incomplete information” in avoiding the type of
9 inspections that could have exposed a badly manufactured seam weld on the gas
10 transmission line and saved San Bruno from disaster.

11 177. The indictment also alleges that, in the 54 years that the weld leaked in
12 the ground beneath the City of San Bruno, PG&E never conducted an inspection that
13 could have detected it. In part, that was because it lost records that showed the most
14 basic characteristics of the pipe, including whether it had seams.

15 178. On July 30, 2014, the grand jury filed a Superseding Indictment that
16 greatly expanded the list of alleged crimes. In addition to adding additional violations
17 of federal pipeline safety laws, the Superseding Indictment charges PG&E with
18 obstruction of the NTSB investigation.

19 179. Defendant Hayes, who signed the letter, reported at the time directly to
20 Geisha Williams, who is on the Board of Directors of Pacific Gas & Electric Company.
21 Geisha reported directly at the time to Peter Darbee, who was PG&E Corp.’s CEO,
22 President, and Chairman of the Board. Upon information and belief, given the gravity
23 of the NTSB investigation and the fact that eight people died in the San Bruno
24 explosion, Hayes cleared his submissions to the NTSB, including the February 22,
25 2011 and April 6, 2011 submissions, with both Williams, Darby, and the PG&E Corp.
26 Board of Directors before finalizing and submitting them to the NTSB. Defendants
27 and current Board Members Chew, Cox, Herringer, Kimmel, Meserve, Miller, Parra,
28 Williams, and Rambo, therefore, all of whom were directors of PG&E Corp. at the

1 time, knew and approved of the misleading submissions to the NTSB.

2 **F. Defendants Breach Their Duty Of Candor And Loyalty By**
 3 **Causing The Company To File A False Proxy Statement**

4 180. On March 25, 2015, Defendants Chew, Fowler, Kelly, Meserve, Parra,
 5 Smith, Johns, Earley, Herringer, Kimmel, Rambo and Williams issued, caused to be
 6 issued, and participated in the issuance of materially false and misleading written
 7 statements and material omissions to shareholders that were contained in the 2015
 8 Proxy Statement (the "Proxy Statement") filed jointly by PG&E and PG&E Corp. The
 9 Proxy soliciting materials included a proposal submitted by a shareholder calling for
 10 the establishment of an Independent Board Chairman at the Company. Defendants
 11 Chew, Fowler, Kelly, Meserve, Parra, Smith, Johns, Earley, Herringer, Kimmel,
 12 Rambo and Williams caused the Company to include materials in the Proxy
 13 recommending AGAINST the proposal.

14 181. The Proxy Statement was false and misleading. The shareholder
 15 proposal specifically stated that the proposal was necessary in order to strengthen
 16 Board oversight of the CEO and other employees, in light of the fact that "PG&E was
 17 charged with 12 pipeline safety violations by the U.S. government for a 2010 natural
 18 gas explosion that killed 8 people and left a crater the size of a house. The grand jury
 19 indictment charged PG&E with knowingly and willfully violating the Natural Gas
 20 Pipeline Safety Act by failing to test and assess unstable pipelines to determine
 21 whether they could fail. PG&E was also charged with keeping incomplete and
 22 inaccurate records about the pipeline that exploded. PG&E was also flagged for its
 23 failure to utilize an environmental management system or to seek International
 24 Organization for Standardization 14001 Certification for some or all of its operations."

25 182. Defendants opposed this proposal in the proxy, falsely stating that the
 26 proposal was allegedly unnecessary because PG&E's corporate governance policies
 27 were already sufficiently robust and adequate to address the wrongdoing that had
 28 occurred. The Defendants caused the following false statement to be included in the

1 2015 Proxy:

2 “• It is in the best interests of the Corporation and its shareholders to have
3 a flexible rule regarding which directors may serve as Chairman.

4 • *PG&E Corporation’s strong corporate governance practices –*
5 *including the requirement of an independent lead director with*
6 *specified duties – address the proponent’s concern* that the Board
7 cannot properly oversee the CEO if the CEO also serves as Chairman.”

8 183. Defendant Johns signed the 2015 Proxy on behalf of Pacific Gas &
9 Electric Company, and Defendants Chew, Fowler, Kelly, Meserve, Parra, Smith,
10 Earley, Herringer, Kimmel, Rambo and Williams approved the Proxy on behalf of
11 PG&E Corp.

12 184. By causing the Company to issue false and misleading material
13 statements in the joint 2015 Proxy Statement, Defendants Chew, Fowler, Kelly,
14 Meserve, Parra, Smith, Johns, Earley, Herringer, Kimmel, Rambo and Williams
15 breached their duties of candor and loyalty. As a direct and proximate result of these
16 Defendants’ wrongful conduct, the Company misled and/or deceived its shareholders
17 by falsely portraying the corporate governance principles of the Company as being
18 adequate and sufficient and “already addressing” the concerns of the shareholder
19 proposal regarding the need for an Independent Chairman in order to monitor the
20 CEO and address highly material safety and other violations by the Company.

21 **G. The Individual Defendants Were Aware of Numerous “Red**
22 **Flag” Warnings of Safety-Related Problems at PG&E But**
23 **Consciously Failed to Take Action to Resolve Safety**
Problems

24 **1. The Individual Defendants ignored warnings of Line**
25 **132’s unacceptably high risk of failure and knowingly**
created a high risk of catastrophic harm

26 185. PG&E is one of the largest public utilities in the country, with over 15
27 million customers and after-tax net income of over \$1 billion and assets of over \$46
28 billion. Its vast northern and central California service territory requires an extensive

1 underground pipeline infrastructure that, if not maintained properly, threatens lives
2 everywhere. Yet, for decades, PG&E's corporate culture has emphasized financial
3 performance over customer safety, consciously disregarding industry pipeline safety
4 practices and willfully circumventing pipeline safety laws and regulations. While
5 PG&E's profit-first emphasis has no doubt served the financial interests of its highly-
6 paid executives, the deadly, devastating San Bruno explosion and fire of September 9,
7 2010, was a predictable, preventable and reprehensible consequence.

8 186. Despite the fact that the San Bruno pipeline that exploded had been in
9 operations for decades, PG&E spent little to no resources on required risk management
10 practices to ensure that it would not explode. During the rapid post-World War II
11 population expansion, PG&E constructed new gas lines, including Line 132, which
12 runs from Milpitas to San Francisco. In 1956, PG&E relocated Segment 180, a 1,851-
13 foot, 30-inch diameter gas transmission pipeline. The pipe was made of flat steel that
14 was rolled and then welded together. The section of pipe also included an otherwise-
15 unknown configuration of six pups manufactured from an unknown source.¹⁵

16 187. In 1956, PG&E knowingly buried its pipeline in a subdivision intended
17 for development into a residential neighborhood. Government standards at the time
18 required the longitudinal seams to be welded from both the exterior and the interior of
19 the joint, penetrating the entire depth of the pipe and overlapping one another.
20 Contrary to these legal requirements, Segment 180's pups contained seams with only
21 an exterior weld, a defect visible to the eye. PG&E engineers knew or should have
22 known that such incomplete seams were vulnerable to rupture from pressure
23 fluctuations.

24 188. Despite this knowledge, PG&E failed to keep accurate records required
25
26

27 ¹⁵ PG&E engineers cannot identify any other project that incorporated such a
28 configuration of six short pieces of pipe.

1 by federal regulations concerning the installation.¹⁶ Moreover, even though PG&E
2 knew that records regarding its pipeline system were incomplete and inaccurate, it
3 relied on these records to make risk assessments that resulted in unwarranted
4 conclusions about pipeline safety. Rather than follow federally mandated integrity
5 verification measures mandated by its lack of records, PG&E managers simply ignored
6 the Company's lack of information and assumed the pipeline was safe.

7 189. Egregiously, the Individual Defendants caused PG&E to repeatedly fail to
8 perform hydrostatic tests or to inspect Segment 180 of Line 132 as industry practice,
9 and later, federal regulations, required. Beginning at its installation and continuing
10 throughout its nearly fifty-five year life, PG&E repeatedly avoided required hydrostatic
11 testing of Line 132. Operating in a culture in which safety was optional, these decisions
12 were made in order to protect PG&E's bottom line, despite the risk to human life and
13 health. As such, PG&E consciously circumvented these safety regulations and the
14 expensive hydrostatic tests they required by artificially spiking pipeline pressure to
15 create the illusion of pipeline integrity.¹⁷ Had PG&E conducted the required tests and
16 inspections, the defect would have been discovered and the damage avoided.

17 190. The NTSB determined that the immediate cause of the rupture was a
18 two-hour increase in the pipeline pressure above its maximum actual operating
19 pressure. During the course of maintenance at PG&E's Milpitas terminal, backup
20 systems lost power. This power loss caused valves to move to a wide open position,
21 resulting in dangerously-increased pipeline pressures. High pressure alarms were
22 triggered for lines in and out of Milpitas, including Line 132. Around 6:00 p.m., the
23 pressure on Line 132 near the rupture site hit a maximum of 386 pounds per square
24 inch, significantly in excess of the maximum actual operating pressure.

25 _____
26 ¹⁶ For example, this pipe was incorrectly described in pipeline risk management
27 records as seamless 30-inch diameter steel, despite PG&E engineers' knowledge that
28 30-inch-seamless pipe did not exist in the 1950s.

¹⁷ No other pipeline operator artificially spiked its pipelines in such a manner as
PG&E.

1 191. Minutes later, one of Line 180's defective pups ruptured, creating a 72 foot
 2 by 26 foot crater and igniting the residential San Bruno neighborhood. PG&E took
 3 over an hour and a half to shut off the gas. Had PG&E installed automatic shut-off
 4 valves on Line 132, the gas could have been quickly shut off, reducing fire damage.
 5 Due to the lack of these shut off valves, PG&E responders faced delays dispatching
 6 and driving through congested streets to collect necessary shut-off tools from PG&E in
 7 order to activate the manual shut-off valves.

8 192. "Natural gas pipeline engineering design employs, at its core, the goal of
 9 *zero significant incidents*. That is, if a pipeline is constructed, operated, and
 10 maintained according to its design, then it should operate without safety risk to the
 11 public – notwithstanding it transports a combustible product because the pipeline is
 12 buried, it is not susceptible to direct inspection on an ongoing basis." In other words,
 13 average or pretty good isn't good enough. This standard is also state law. *See* Public
 14 Utilities Code section 451.¹⁸ Yet rather than adhere to this standard, PG&E placed
 15 profits over safety. For decades, PG&E has failed to do what was necessary and legally
 16 required to protect the safety of its customers, either because of expense or perceived
 17 trouble.

18 193. The Individual Defendants knew but consciously disregarded the "probable
 19 dangerous consequences" of these failures – a pipeline explosion with loss of life and
 20 catastrophic damage. During the Relevant Period, PG&E's officers and its Board of
 21 Directors have known of the need to test and replace Line 132 yet consciously failed to
 22 do so, as demonstrated by the following:

- 23 • As far back as 1984, PG&E managing agents, including the head of Gas
 24 System Design and the PG&E Management Committee, were told that

25 _____
 26 ¹⁸ The section reads in part: "Every public utility shall furnish and maintain such
 27 adequate, efficient, just, and reasonable service, instrumentalities, equipment, and
 28 facilities, including telephone facilities, as defined in Section 54.1 of the Civil Code, as
 are necessary to promote the safety, health, comfort, and convenience of its patrons,
 employees, and the public."

1 PG&E failed to allocate adequate funds to “assure” system integrity, and
2 that the risk of failure escalated as these facilities age.

- 3 • In 1987, Bechtel warned the head of Gas Pipeline Integrity that a project
4 for the collection of data for PG&E’s gas transmission lines had identified
5 various pipeline segments without records to validate information
6 regarding the characteristics of PG&E’s pipelines; Bechtel proposed
7 digging up these pipeline sections to obtain missing information; however
8 PG&E refused to spend the money to dig up the lines.
- 9 • In or about 2000, PG&E’s managing agents transferred the GPRP for gas
10 transmission lines into its Risk Management Program, which PG&E
11 alleged was to prioritize and manage risks but was in effect to avoid
12 necessary compliance expenditures for line replacement and pressure
13 testing.
- 14 • PG&E officers as well as its Board of Directors were aware of the need to
15 test and/or replace its aging pipelines, including Line 132, more than two
16 decades before this incident.
- 17 • PG&E’s head of Gas System Design proposed hydrostatically testing Line
18 132 more than 30 years before this explosion.
- 19 • PG&E managing agents were warned that there were over 1.7 million
20 feet of transmission lines in populated areas that had no hydrostatic test
21 records, including Line 132.
- 22 • PG&E’s Management Committee was informed that it had deferred over
23 \$17.0 million in pipeline projects involving safety, code compliance and
24 systems reliability.
- 25 • PG&E’s head of Gas System Design alerted PG&E’s officers and Board in
26 the late 1970s and early 1980s of the need to replace PG&E’s aging gas
27 pipelines and proposed instituting the Gas Pipeline Replacement
28 Program (“GPRP”) to facilitate the replacement.
- PG&E managing agents including PG&E’s Management Committee and
Officers were warned that pipelines installed prior to 1950 (PG&E pipe for
Segment 180 had been identified with pipe held as salvage from pipe
acquired as early as 1947-1948), were “suspect” and “required attention.”
- In 1984-1985, PG&E Officers and its Board of Directors were advised
that Line 132 needed to be replaced along with two other gas
transmission lines serving the San Francisco Bay Region.
- PG&E Officers and the Board understood the most immediate priority for
replacement of pipelines was in areas where the lines were 30 to 100 feet
from residences, and that the lines in these areas should be replaced in 5-
7 years.

- 1 • The head of Gas System Integrity warned the PG&E Management
2 Committee that the foreseeable risk of failing to commit to the
3 replacement of aging pipelines was death, injury and property damage to
4 those living near the pipeline.
- 5 • PG&E's officers and managing agents were warned of the dangerous
6 consequences of injury, death and/or property damage that would occur to
7 heavily populated areas if pipelines like Line 132 were not replaced.
- 8 • PG&E misrepresented to the CPUC that terminating their "GPRP" to
9 replace it with their Risk Management Program ("RMP") would not result
10 in significant cuts to pipeline safety and reliability.
- 11 • Secretly, in the Spring of 1999, the PG&E GT&S Capital Program Review
12 indicated that use of the Risk Management Program would save PG&E
13 \$60 million over the life of the GPRP.
- 14 • In fact, the Risk Management Program became a cost reduction measure,
15 resulting in PG&E replacing only miles of pipeline, as opposed to 165
16 miles of pipeline that would have been required had the Gas Pipeline
17 Replacement Program instituted in 1985 remained in place.
- 18 • In the Spring of 2001, PG&E's California Gas Transmission Program
19 indicated that its Risk Management Program would save PG&E over
20 \$200 million over twenty years by avoiding regulatory and safety
21 required pipeline verifications and/or risk management analysis of all gas
22 pipelines, utilizing smart pigging or hydrotesting in high consequence
23 areas to comply with federal law.
- 24 • From 2008 to 2010, PG&E placed excessive emphasis on financial goals
25 set by executive management in its budgeting process. At the same time,
26 PG&E reduced compliance and other Integrity Management expenses by
27 consciously deciding to defer projects, in particular by deferring or down
28 grading assessment methods to inadequate and less costly techniques;
 moreover, PG&E ceased preparing metrics, goals or annual reports for its
 gas transmission pipeline Risk Management Program. The Overland
 CPUC review concluded that risk management continued to be a separate
 program "in name only after 2004."
- The approved budgets for Integrity Management were slashed nearly
 50% from what was requested in 2008 for its compliance and integrity
 activities, and PG&E's Fall Program Review noted that "expected flat
 funding in 2009 and 2010 will drive the program into non-compliance in
 2012."
- Budget cuts for safety programs continued in 2008, 2009 and 2010.
 Actual 2008 for compliance and safety funding was 35% below the initial
 request and 16% below "minimum funding to achieve 2012 compliance."
 PG&E's maintenance budget was 47% below the initial request and 25%
 below the "recommended minimum level."

- 1 • Integrity Management budget cuts for 2009 resulted in deferring or
2 eliminating replacement of over 44 miles of gas transmission pipelines in
3 HCAs. PG&E also deferred 41 miles of integrity management
4 assessments of gas transmission pipelines.
- 5 • The PG&E 2010 budget was reduced, for the third straight year. The
6 2010 budget was set at \$6.7 million below already constrained 2009
7 actual expense levels.

194. According to documents released by The Utility Reform Network
8 (“TURN”), PG&E contemplated replacing a 7,481 foot segment of Line 132 north of San
9 Bruno in 2007. TURN, however, alleges that PG&E deferred maintenance on a wide
10 variety of its pipelines and equipment in recent years. At the time of the 2007 request,
11 PG&E had already identified that section of Line 132 as one of the 100 riskiest
12 pipelines in PG&E’s system. PG&E was awarded \$5 million of ratepayer money to
13 replace the line. The replacement was scheduled to be completed by October 2009.
14 This work was included in a list of projects that PG&E submitted to the CPUC to
15 justify a rate-hike request related to natural gas transmission and storage. Rather
16 than conduct the repairs, PG&E repurposed the money and left the old segment in
17 place. Especially troubling is that, according to TURN, in 2009 PG&E spent nearly \$5
18 million on bonuses for six of its top executives, nearly the same amount that PG&E was
19 awarded to replace an extremely risky segment of Line 132. In this case, PG&E did not
20 just put profit before safety; it put personal benefit before safety.

21 195. Even worse, that same project appeared again in 2009 on a list of projects
22 that PG&E submitted to the CPUC in a “Capital Project Summary.” PG&E again
23 sought \$5 million for the same project. PG&E justified the project and second request
24 for \$5 million in funding by characterizing the risk of failure to replace Line 132 as
25 follows:

26 If the replacement of this pipe does not occur, risk associated with this
27 segment will not be reduced. Coupled with the consequences of failure of
28 this action of pipeline, the likelihood of a failure makes the risk of a
29 failure at this location **unacceptably high**.

196. One PG&E document noted in an apparent reference to an explosion that

1 it “has a potential impact radius of 415 feet and is located in a heavily urbanized
2 area.” In 2009, the \$5 million was awarded again to PG&E and again the project was
3 deferred. Line 132 has been a concern for years, PG&E knew that the risk was
4 “unacceptably high” and could result in a deadly explosion. The Individual Defendants
5 knew of the risk, and were using that risk to obtain more money from ratepayers, yet
6 they continued to delay necessary repairs that they knew about.

7 197. In early 2009, PG&E became aware that “significant amounts” of
8 compressor oil and water was accumulating in Line 132 and three other transmission
9 lines in the Peninsula area south of San Francisco connected to the Milpitas terminal.
10 The liquids were, according to Pacific Gas & Electric Company, “an ongoing concern for
11 internal corrosion.” The liquids were appearing in filters in distribution stations
12 served by the pipelines, and originated at the Milpitas terminal. The likely cause was a
13 mechanical failure.

14 198. Pooling liquids within a gas transmission pipeline can lead to
15 microbiologically induced corrosion, which can rapidly corrode a pipeline and degrade
16 its integrity, leading to catastrophic failure.

17 199. PG&E did not use a special internal probe called a pipeline inspection
18 gauge, or “pig,” that can measure pipe thickness and detect internal corrosion and
19 cracking using ultrasound vibrations or magnetic field waves, to clean Line 132 or
20 check for internal corrosion because the pipeline had too many bends, which
21 themselves can be a location for liquid pooling and corrosion. Nor did PG&E use
22 hydrostatic testing with water pressure, which would have required shutting down the
23 line. PG&E instead relied on direct assessments to inspect for internal corrosion, to
24 the extent it conducted such inspections. “Direct assessment” means testing for
25 corrosion by running an electric current between two measuring devices inserted into
26 the ground. If corrosion is present in the pipe, a weaker than normal signature should
27 register. The test is not completely effective for detecting corrosion, and it is not
28 effective in finding metal fatigue, stress corrosion, cracking, excessive gas line

1 pressure, and other dangers. Most experts consider it an outdated technology.

2 200. In November 2009, PG&E installed separators at its Milpitas terminal to
3 stop the flow of compressor oil into its transmission pipelines. University of California
4 – Berkeley Professor Robert Bea said the pictures of the ruptured San Bruno pipeline
5 “clearly show internal corrosion.”

6 201. PG&E did not conduct mandatory risk assessment on Line 132 or did so
7 inadequately, because none of the PHMSA-identified “additional measures” (such as
8 installing ASV, RCV, or a computerized monitoring and leak detection system, or
9 replacing segments with heavier wall pipe) were implemented despite the obvious need
10 to take steps to prevent or mitigate a catastrophic leak in PG&E’s aging metal pipes
11 carrying extremely flammable natural gas at high pressure through densely populated
12 San Bruno, a risk that PG&E knew was “**unacceptably high.**”

13 202. Especially troubling is PG&E’s failure to determine “based on a risk
14 analysis, that an ASV or RCV would be an efficient means of adding protection to [San
15 Bruno] in the event of a gas release.” All the factors that must be considered –
16 swiftness of leak detection and pipe shutdown capabilities, the type of gas being
17 transported, operating pressure, the rate of potential release, pipeline profile, the
18 potential for ignition, and location of nearest responsible personnel – should have led
19 PG&E to conclude that ASV or RCV were required on Line 132. Moreover, PG&E
20 completely ignored the lesson it should have learned from the 1981 San Francisco gas
21 pipeline rupture about the need for fast pipeline shut-off capability.

22 203. The enforcement action taken by CPUC, the reports from the NTSB, and
23 the publicly-known concerns about PG&E likely represent a small percentage of
24 noncompliance issues of which PG&E and the Individual Defendants were aware or
25 should have been aware of, because pipeline operators, such as PG&E, have primary
26 responsibility for safety management within HCAs.

27 204. As of 2010, considerably less than 10% of PG&E’s HCA natural gas
28 transmission pipelines were inspected by use of pigs.

205. PG&E's safety budget cuts, project safety deferrals, adoption of ineffective and less costly assessment methods and decisions to dodge compliance with regulations and pipeline industry standards, guides, and recommended practices were not the result of profitability constraints. PG&E revenues exceeded the amount needed to earn the authorized rate of return by \$430 million. The low priority PG&E gave safety and reliability requirements in the 2008-2010 budget process was well outside standard industry practice.

206. Rather, PG&E budget cuts for safety related projects were motivated by financial performance. Relatedly, PG&E executive officer compensation for the period 2000-2010 (the period when PG&E terminated its GPRP and adopted the RMP) was over \$281 million. By comparison, the cost to hydrotest the one-third mile Segment 180 of Line 132 would have been approximately \$125,000. Public filings also show that in early 2010, PG&E chose to spend \$45 million of ratepayer dollars in a failed bid to block public power. This money could have been used and should have been used to repair pipelines in the San Francisco peninsula that PG&E knew could explode and where the risks were "unacceptably high."

2. The Boards of Directors were aware of the serious safety, operational, maintenance and cultural problems at PG&E

207. Prior to the 2010 San Bruno explosion, the Boards of Directors of both PG&E Corp. and PG&E were fully aware of the serious safety, operational, maintenance and cultural problems at PG&E. The Boards of Directors of PG&E Corp. and PG&E sponsored investigations and reviews revealing that PG&E was in a "crisis" mode due to lack of process focus, quality control, operational discipline, planning and resource allocation. Between at least 2007 and 2010, the Boards at PG&E Corp and PG&E were specifically informed of and knew about the following:

- Assertions of management improprieties in PG&E's gas operations by employees at the 2007 Annual Shareholders' Meeting;

- 1 • The explosion and failure of network transformers in July 2007 and the
- 2 subsequent discovery of maintenance and engineering breakdowns.
- 3 • A business transformation failure in October of 2007 that impacted
- 4 primarily work flow processing in T&D.
- 5 • System-wide problems in the recordkeeping relating to gas matters, such
- 6 as leak surveys, maintenance process records, and emergency valve and
- 7 regulation station records.
- 8 • Repeated meetings with the City and County of San Francisco due to
- 9 explosions and significant service outages.
- 10 • Multiple Direct Current (“DC”) system failures in San Francisco, which
- 11 culminated in the Polk and O’Farrell event and which led to PG&E’s
- 12 retirement of its extremely old DC system.
- 13 • In 2008 and 2009, the Diablo Canyon electric yard events relating to high
- 14 voltage bushing explosions and transformer issues.
- 15 • The Rancho Cordova explosion on December 24, 2008 and the subsequent
- 16 NTSB investigation.
- 17 • The accelerated leak survey from late 2008 through early 2010, which
- 18 resulted in record levels of work being executed in a compressed
- 19 timeframe.
- 20 • Findings and records problems relating to Transfer Ground Rocker Arm.
- 21 • Main (“TGRAM”) and Transfer Ground Rocker Arm Line (“TGRAL”) oil
- 22 filled switches.

23 **3. PG&E has been plagued by safety problems**

24 208. The Individual Defendants have been well aware of PG&E’s long history

25 of incidents with its pipeline networks, beginning with problems in 1980s and 1990s

26 that accelerated throughout the first decade of the 2000s. Much of this history has

27 been documented by regulatory authorities.

28 209. As early as 1981, for example, a 16-inch natural gas main operated by

PG&E in downtown San Francisco ruptured. This caused the release of a gas that

contained highly toxic PCBs. It took workers nine hours to stop the flow of gas because

1 of difficulties in closing the manual shut off valves.

2 210. In 1984, the Manager of Gas Systems Design for PG&E made a request
3 directly to PG&E's Board of Directors to spend \$47 million on pipeline replacement in a
4 year that PG&E had made over \$1.8 billion. The Manager warned the PG&E Board of
5 the severe negative consequences of failing to adopt the GPRP. PG&E's Manager also
6 warned the PG&E Board that the foreseeable risk of failing to commit to the
7 replacement of aging pipelines was death, injury and property damage to those living
8 near the pipeline. He concluded by providing the PG&E Board with several
9 alternatives to evaluate. The first alternative was to do nothing; however, PG&E's
10 Manager warned that this alternative "will eventually result in a reduction in safety
11 and reliability of gas service to customers. If a program to replace this aging piping is
12 not adopted, only a small portion will be replaced on an unplanned basis as this piping
13 deteriorates in the future. Doing this work on an unplanned basis will be at least 25%
14 more costly." The second option was a thirty-year program with an estimated total cost
15 of \$1.52 billion or a twenty-year program with a higher cost in the initial years. The
16 PG&E Board chose the least burdensome approach and approved the program for three
17 years because "no exception to the budgetary process seems warranted." After three
18 years, the PG&E Board was to reevaluate the usefulness of the program.

19 211. In a 1987 letter to PG&E, the outside company contracted to collect the
20 pipeline data for the GPRP advised that, because of inadequate recordkeeping
21 practices, information on the manufacturer, type of soil and condition of pipe would be
22 hard to obtain unless the pipe is uncovered. However, PG&E chose not to uncover the
23 pipe because of cost considerations.

24 212. In approximately 2000, the pipeline replacement program was shifted
25 under the Risk Management Program ("RMP"). The RMP resulted in replacing only
26 twenty-five miles, as opposed to the one hundred sixty-five miles of pipeline that would
27 have been required under the 1985 GPRP. In 2001, PG&E's California Gas
28 Transmission Program indicated that its RMP would save PG&E more than \$200

1 million over twenty years by avoiding regulatory and safety required pipeline
2 verifications and/or risk management analysis of all gas pipelines and avoiding smart
3 pigging and hydrotesting in high consequence areas as necessary to comply with
4 federal law.

5 213. Christopher Hart, the Vice Chairman of the NTSB, said that the agency
6 had put PG&E on notice regarding issues with manual shut off valves. Nevertheless,
7 documents show that PG&E, for at least 20 years, has failed to spend the funds
8 required to replace aging gas pipelines or install modern equipment such as automatic
9 shut-off valves, which would have significantly reduced the fire damage following the
10 San Bruno explosion. The Individual Defendants were aware of the need for repairs
11 and chose not to pay for those repairs.

12 214. In 1995, the CPUC admonished PG&E for collecting more funds from
13 ratepayers to replace gas transmissions than it actually spent for those tasks. A utility
14 commission member in 1995 wrote the following in regards to a CPUC decision on
15 PG&E's requested gas and electric rates: "Despite consistent under spending in
16 previous years, we granted PG&E's full funding request . . . on the basis that PG&E
17 should continue replacing old pipelines 'as quickly as possible' in the interest of safety."
18 The commission member also explained, "We stated our expectation that PG&E should
19 use the authorized funds for their intended purpose and even accelerate the pace of the
20 program," adding "[b]etween the time we issued the last general rate case decision and
21 the filing of this one, PG&E has fallen short of our stated expectations."

22 215. PG&E had requested and been granted the right to continue to charge
23 ratepayers high rates purportedly for repairs even though PG&E had a history of
24 underfunding its pipeline operations and safety. This state of affairs continued as
25 PG&E persistently failed to spend the money it had been approved on pipeline
26 operations, maintenance, and safety. This happened despite the repeated notices and
27 warnings to PG&E to increase and improve its spending on pipeline operations,
28 maintenance and safety. The Individual Defendants were aware of these warnings.

1 216. In 1998, the CPUC reported that PG&E had a history of collecting funds
 2 for repairs and diverting those monies for other purposes. In that 1998 report, the
 3 CPUC found that PG&E had collected \$77.6 million that was supposed to be spent
 4 trimming trees near power lines, which is important for safety purposes, and used
 5 those monies for other reasons.

6 217. From 2004 through 2009, California gas utilities tallied nearly 700
 7 “probable violations” of federal or California state pipeline safety rules, from shoddy
 8 maintenance records to worker errors. The Individual Defendants were aware of these
 9 serial violations.

10 218. From 2004 through 2009, PG&E was cited 410 times for unsafe practices
 11 in its gas operations, whereas all the other utilities in California combined were cited
 12 only 287 times. During that time period, although PG&E operated only 41% of the gas
 13 pipelines in California, it was responsible for 59% of the probable violations. The
 14 Individual Defendants were aware of these violations.

15 219. According to federal safety data, between 2004 and 2010, PG&E had more
 16 reportable incidents than any other gas delivery company in the United States. A
 17 reportable incident, according to the PHMSA, is an incident that results in more than
 18 \$50,000 of property damage, injury requiring hospitalization, or death. The Individual
 19 Defendants were aware of this embarrassing track record.

20 220. In July 2005, a residence in Los Altos was destroyed by a natural gas
 21 explosion that was caused by corrosion in a PG&E pipe installed in 1948. That
 22 incident resulted in property damage and personal injury to the occupants of the
 23 residence, resulting in \$463,784 in damages. The subsequent investigation identified
 24 pipe corrosion as the cause of the explosion. The Individual Defendants were aware of
 25 this explosion and its cause.

26 **4. The Individual Defendants ignored red flag warnings**
 27 **about inadequate recordkeeping at PG&E**

28 221. PG&E internal corporate memos reveal that the Defendants knew, no

1 later than 1993, that PG&E was losing track of documents for its gas-transmission
2 system and that a catastrophe was not only possible, but likely, which would result in
3 serious financial and reputational harm to PG&E, not to mention potential property
4 damage and loss of life.

5 222. These internal memos came from Larry Medina, PG&E's then-head of
6 information and records management.

7 223. In a December 1992 memo, Medina warned PG&E's senior executives that
8 PG&E was creating potentially "incomplete or inaccurate" records. Medina urged the
9 company to devote more money and staffing to the problem. Medina went to PG&E
10 first to warn of his concerns, but he was ignored. The following is an excerpt from the
11 December 1992 Medina memo:

12 One thing that will become apparent when reviewing this document is
13 that many of the functions that were transferred to the DBU side (with
14 headcount and funds) have not been performed or kept current for some
15 time now. Prime examples would be the Pipeline History files for
16 Strength Test and Pressure Reports for the DBU Transmission lines, the
17 regular issuance of Gas Standards, the Estimator's manual and a
18 decision made jointly by GSB and DBU after the formal transfer of
19 responsibilities for the Mapping function to no longer update or keep
20 current the Pipeline Plat Sheets, due to the extensive backlog and the
21 perceived lack of importance of the data reflected on the drawings.

22 The failure to maintain the data formally on the Plat Sheets and the
23 decision not to generate Plat Sheets for new work may be costly to PG&E
24 in the future and it may be difficult to defend the non-existence of the
25 data. Recent changes placed the responsibility for maintaining the data
26 on the Divisions and/or Regions, by continuing to "pencil post" any
27 changes to the last versions of the Plat Sheets issued to them.

28 224. In a March 1993 internal PG&E company memo, Medina further warned
PG&E executives about the "ripple effects" of a company reorganization that was going
on at PG&E in that time period. As part of that reorganization, PG&E eliminated a
unit in the company that was responsible for tracking pipeline records. As Medina
warned in his March 1993 memo, some critical records had already been lost. As the
memo goes on to state, PG&E's recordkeeping functions "have not been performed or

1 kept current for some time now.” Amongst the records that were not maintained were
2 results for tests of pipeline strength, obviously critical information to preventing
3 pipeline explosions and ensuring public safety.

4 225. The memo from Medina also warned that system maps with crucial
5 information about pipelines were not being updated because of “the perceived lack of
6 importance of the data.” This directive came from the top leadership of PG&E. As
7 Medina went on to say, the failure to keep such information may be “costly to PG&E in
8 the future, and it may be difficult to defend the nonexistence of this data.”

9 226. When Medina’s memos were provided to PG&E’s executives, they were
10 ignored, and Medina’s position in the company was eliminated.

11 227. The two memos from Medina warning PG&E’s top management of the
12 serious recordkeeping problems were publically released by the CPUC in the aftermath
13 of the San Bruno pipeline explosion.

14 228. Years later, PG&E Senior Gas Engineer Todd Arnett admitted in a
15 deposition that PG&E’s recordkeeping was notoriously incomplete and inaccurate and
16 that this issue was raised to the highest levels of the company. Arnett also testified
17 that PG&E’s incomplete and inaccurate records affected the quality of the decisions
18 engineers were making in conducting risk assessments. Arnett admitted that it was
19 well known at PG&E prior to the 2010 San Bruno explosion that the Geographic
20 Information System (“GIS”), a recordkeeping database used to keep track of the aging
21 and quality of the pipes, was incomplete and inaccurate.

22 229. As set forth above, the 2010 San Bruno explosion was the result of an
23 incomplete seam weld in a pipe that PG&E claimed it did not know was part of the
24 line because its database listed the pipe as “seamless.” The importance of accurate
25 recordkeeping is critical to ensuring the safety of the public and to ensure that PG&E’s
26 gas transmission network is safe and secure. Because of the inaccurate recordkeeping,
27 PG&E never investigated the seam weld on the pipe because its records indicated
28 there was no seam. The fact that the Individual Defendants knew that recordkeeping

1 was incomplete and inaccurate is, therefore, directly linked to the gas pipeline
2 explosions that have caused PG&E significant harm. The fact that such deficiencies
3 were widely known throughout the Company for over a decade prior to the San Bruno
4 explosion, while Defendants refused to act to remedy this error, is also directly linked
5 to the gas pipeline explosions that have caused PG&E significant harm. PG&E's own
6 senior gas engineers, as Arnett admitted, knew that they were making difficult
7 decisions based on incomplete and inaccurate information, a situation that the
8 Defendants knew about and condoned. Arnett's testimony confirms what Medina had
9 identified in memos as early as 1992.

10 230. In the aftermath of the 2010 San Bruno explosion, PG&E has publicly
11 admitted that it still does not have complete records vouching for the safety of about
12 500 miles of gas transmission pipeline running in and near urban areas.

13 231. Federal and California state investigators have found that PG&E had
14 inaccurate or nonexistent records for much of its more than 1,000 miles of urban gas
15 transmission lines.

16 232. In response to the release of the Medina memos, PG&E spokeswoman
17 Brittany Chord said only that the state's decision to make the memos public "speaks
18 for itself," and did not directly address their contents.

19 233. Representative Jackie Speier (D-San Mateo), in describing Mr. Medina's
20 memos, stated, "[h]e [Larry Medina] was alerting the leadership that if they pursued
21 the route they were heading down, it would be very detrimental, that [PG&E] had to
22 take safeguards to make sure the system was safe."

23 234. Representative Speier went on to say that "[i]t underscores what we have
24 already come to find out: safety was not in the lexicon at PG&E before the explosion. It
25 was a second thought or a third thought, and the recordkeeping was and is in
26 shambles."

27 ///

28 ///

5. The Individual Defendants ignored serious red flag problems at PG&E that were identified in PG&E audits

235. In 2007, PG&E conducted an internal safety audit of its Sonoma County residential gas distribution system. The audit report revealed major issues with how PG&E reported gas leaks, including falsification of records and inadequate training of inspectors. The problems were of such high severity that PG&E followed up with another survey, which found gas leaks in 28 of the 32 residential areas that were tested, including all four of the residential distribution lines in the Peninsula area south of San Francisco. The underreporting of gas leaks was a known problem at PG&E for years and the entire PG&E Board of Directors knew of this problem no later than May 2007.

236. William Marcus, a principal economist for JBS Energy Inc. testified before the CPUC that “[w]hat happened is that Pacific Gas and Electric Company’s gas leak detection and repair program fell apart.”

237. In May 2008, regulators notified PG&E that it was not properly tracking external corrosion problems on pipelines and were not ensuring that the individuals performing this work were properly qualified.

238. In a 2008 audit of PG&E’s Sacramento division, regulators noted that PG&E failed to meet its deadlines for fixing leaks or inspecting repairs in 23 instances over two years. That audit also revealed that PG&E could not prove they were doing annual drills on shutting down gas during emergencies.

239. In August 2008, the CPUC conducted an audit of PG&E’s Fresno division and concluded that PG&E did not have sufficient training and/or appropriate equipment for its workers to deal with outdoor pipeline leaks. That safety audit, conducted under the authority of GO 112-E, included a review of the Fresno division’s records and involved a field inspection of various segments of its gas distribution systems. The audit found a number of major violations of safety regulations established by PHMSA.

1 240. The audit also found that PG&E's procedures did not define what
2 constituted a "hazardous" leak, meaning that there were no standards for PG&E field
3 service representatives to determine the severity of outdoor leaks in response to
4 customer calls about the smell of gas. In addition, the procedures did not provide for or
5 require field service representatives to be qualified in the use of gas detection
6 equipment or to possess knowledge needed to properly grade an outdoor leak.
7 Consequently, field service representatives were left on their own to make subjective
8 decisions, without being able to rely on any standards, regarding to severity of outside
9 leaks and whether or not to notify on-call construction personnel.

10 241. The audit revealed issues with PG&E's corrosion control record keeping.
11 CPUC's inspector expressed frustration with PG&E, noting that the company had
12 promised nearly two years earlier to fix the corrosion problems, but failed to do so.

13 242. In its response, three months after being cited for these violations, PG&E
14 promised to update its protocols before the end of 2008 to better define "hazardous"
15 leaks, and stated it would negotiate with the labor union representing field service
16 representatives and would add grading outdoor leaks to their job classification and, if
17 successful, to train, qualify, and provide them with the necessary equipment.

18 243. PG&E also promised to conduct a "special survey" to detect gas leaks as a
19 result of a 2007 internal survey and the 2008 CPUC audit. Under this survey, it would
20 accelerate all mandatory surveys that were due in 2011 and 2012 so that they would all
21 be completed by the end of 2010. After the CPUC had determined that PG&E had
22 conducted inadequate surveys of gas leaks for decades, PG&E finally decided to rush
23 through surveys.

24 244. According to PG&E's 2009 Annual Report, it had incurred "approximately
25 \$100 million of costs to perform accelerated natural gas leak surveys and associated
26 remedial work" which according to the 2009 10-K, was expected to be completed in
27 April 2010. However, information discovered years after the San Bruno explosion in
28 2010 showed that PG&E did not meet its obligations. PG&E again began downgrading

1 the amount of money it would spend on gas leak surveys in the months leading up to
 2 the tragic San Bruno incident. Moreover, the required gas leak surveys did not occur
 3 by April of 2010, as PG&E had promised.

4 245. In October 2008, CPUC engineer Dennis Lee stated publicly that PG&E
 5 was not keeping proper logs of pressure problems in the gas distribution system.

6 246. The Individual Defendants were aware of the foregoing audits and
 7 findings.

8 **6. PG&E's executive leadership was warned of**
 9 **catastrophic risk if PG&E continued to ignore and fail**
 10 **to prioritize operational safety at PG&E**

11 247. PG&E was well aware of serious problems with the risk management
 12 policies at PG&E. In May 2007, an internal PG&E report identified the fact that
 13 PG&E "lacks a well-defined, documented risk policy/standard at the enterprise level
 14 that 1) explains PG&E's overall risk assessment methodology, 2) defines the lines of
 15 business roles and responsibilities, 3) specifies the requirements for performing and
 16 documenting risks, 4) links risk assessments to controls, self-assessment, reviews and
 17 audits, and 5) specifies the requirements for metrics to track the risks." The internal
 18 PG&E report also found that "Energy Delivery and Engineering & Operations do not
 19 have an integrated, documented, consistent approach with clear organizational roles
 20 and responsibilities for dealing with their risk and associated corrective actions."

21 248. Internal PG&E documentation from as early as 2006 identified a "Gas and
 22 Electric Distribution System Safety Conditions" as a medium to high probability risk
 23 that had medium to high consequences for PG&E. In other words, a dangerous and
 24 catastrophic explosion was a well-known risk at PG&E. PG&E also knew that such an
 25 incident would dramatically affect PG&E. PG&E even noted that imprudent decision-
 26 making in this area could create medium to high cost exposure to PG&E. Despite
 27 knowledge of this risk as early as 2006, the Individual Defendants continued to operate
 28 PG&E in a lax and imprudent manner in violation of their fiduciary duties to the
 company.

1 249. According to Bill Manegold, a PG&E gas system official, PG&E's integrity
2 management system was not complied with. The RMP-1 (Risk Management Program)
3 was supposed to be reviewed annually. Defendant Johns, however, testified that he
4 was not aware that it had not been reviewed for five years. Defendant Johns, as the
5 President of PG&E, the operating subsidiary of PG&E Corp., certainly should have
6 reviewed the RMP-1 or ensured that it was reviewed annually. The failure of
7 Defendant Johns to ensure that basic risk management procedures were followed
8 demonstrates that risk management and safety was not a priority at PG&E.

9 250. In 2007, PG&E, at the direction of Defendants Darbee and Johns, brought
10 in a new Senior Vice President of Engineering and Operations to manage the
11 Enterprise Risk Management ("ERM") program, even though he had no experience at
12 an energy company and his experience was in telecommunications. Despite his
13 inexperience, the new Vice President determined immediately, in 2007, that PG&E's
14 risk management problems were "unactionable" because almost everything at PG&E in
15 regards to safety was "broken." In fact, soon after he took the job, the new Vice
16 President was personally told by Defendants Darbee and Johns that PG&E had a long
17 history of safety and operational problems that were deeply ingrained into the
18 corporate culture and management style.

19 251. Moreover, by at least 2009 and 2010, the executive management
20 committee at PG&E (which included senior officers and directors such as Defendants
21 Darbee and Johns) was well aware that the company faced a significant risk of a single
22 major catastrophic event. In a document entitled "Enterprise Risk Management Risk
23 Review," it was identified to PG&E's executive management that one of the "top"
24 enterprise risks was the risk of a "system safety" event. However, although PG&E's
25 executive leadership was well aware that a gas pipeline explosion, or a "system safety"
26 event as PG&E called it, was a possibility, no effort was made to determine if a
27 manufacturing defect could be the cause of a gas pipeline explosion. Despite this being
28 a commonsense possibility of what could cause a pipeline to explode, PG&E did not

1 make any effort to analyze that possibility and therefore had no plan in place to
2 mitigate that risk.

3 252. The executive management committee, in putting together this
4 “Enterprise Risk Management Risk Review,” determined that the financial impact of
5 risk mitigation was \$100 to \$500 million. The executive management committee
6 considered the reputational and environmental impact of risk mitigation, but
7 dismissed the impact on human lives that would happen if there was a failure to
8 mitigate the risk of a catastrophic “system safety” event. In the work performed by
9 PG&E, they referred to a catastrophic event that could cost human lives as a
10 “significant event in a high density area,” which is a euphemism for an explosion in a
11 place where people live and work.

12 **7. The Individual Defendants were aware of adverse**
13 **regulatory findings**

14 253. On January 12, 2012, the CPUC released to the public its Incident
15 Investigation Report on the PG&E Pipeline Rupture in San Bruno, California. It
16 concluded that the incident was caused by PG&E’s failure to follow accepted industry
17 practice when constructing the section of the pipe that failed, PG&E’s failure to
18 comply with integrity management requirements, deficiencies in PG&E’s systems and
19 emergency response actions, and “a systemic failure of PG&E’s corporate culture to
20 emphasize safety over profits.”

21 254. As the CPUC and Overland noted in their respective reports (as discussed
22 below), PG&E treated **safety as a “low priority”** and chose to use surplus revenues
23 for “general corporate purposes” rather than improved gas safety. By cutting back on
24 pipeline-replacement projects and maintenance, laying off workers, using cheaper but
25 less effective inspection techniques and trimming other pipeline costs, PG&E saved
26 upward of 6% of the money designated for pipeline safety, maintenance and operations
27 program. PG&E diverted customers’ fees from safety and long-term sustainable
28 growth to short-term profit.

1 **a. An Independent Review Panel reviewed the San**
 2 **Bruno explosion and PG&E's conduct and found**
 3 **that the Company focused solely on financial**
 4 **performance at the expense of operational**
 safety

5 255. An Independent Review Panel (the "Panel") was created soon after the
 6 2010 San Bruno explosion to investigate the causes of the explosion and the role of
 7 PG&E in that explosion. The chairman of the Panel was Larry N. Vanderhoef,
 8 Chancellor Emeritus of the University of California - Davis. The other members of the
 9 Panel were Patrick Lavin of the International Brotherhood of Electrical Workers 7th
 10 District International Executive Council; Karl S. Pister, Chair of the Governing Board
 11 of the California Council on Science and Technology and Chancellor Emeritus of the
 12 University of California - Santa Cruz; Paula Rospot Reynolds of PreferWest, LLC; and
 13 Jan Schori from Downey Brand LLP. The Panel was assisted by several experts,
 14 including Jacobs Consultancy, Inc. The task of the Panel was to investigate the San
 15 Bruno pipeline explosion and the culture of PG&E and its operational policies.

16 256. The central conclusion of the Panel was that PG&E's corporate culture
 17 needed to be thoroughly changed because the top leaders of PG&E, including the
 18 Individual Defendants in this case, lacked the expertise and knowledge to properly
 19 handle operational and process safety at PG&E and had demonstrated no desire to
 20 learn. The top leaders of PG&E were focused solely on financial performance and
 21 consistently sacrificed safety for profit. This mismanagement is reflected in an
 22 anecdote that is contained in the Panel's report. When a top executive was asked how
 23 safety could be improved at PG&E, the top executive stated that if PG&E could recover
 24 the costs of safety improvements that would improve safety. This perhaps best
 25 illustrates the massive cultural cancer at PG&E that the Individual Defendants
 26 created and fostered. In other words, PG&E's basic position is, "Sure, we'll improve
 27 safety, as long as someone else pays for it."

28 257. The Panel also found that PG&E lacked core technical expertise and that

the expertise it did have was being lost. The Individual Defendants had allowed that knowledge base to be lost while increasing layers of management, in which businessmen and lawyers were essentially running one of the nation's largest utilities. The Individual Defendants themselves came largely from financial and legal backgrounds and had no understanding or knowledge of process or system-wide safety at PG&E. Despite being informed that more money was needed for overall safety, the Individual Defendants consistently rejected those recommendations in order to cut costs. The Individual Defendants were well aware that the company lacked the technical expertise needed to ensure process and operational safety. However, since the Individual Defendants were ignoring PG&E's own experts in setting budgets, it did not matter to the Individual Defendants that the company lacked the expertise needed to operate a utility of the size and scope of PG&E.

258. The Panel identified several key problems with PG&E's corporate culture:

- Excessive levels of management - In certain silos, there were as many as nine levels between the CEO and the front-line employee. As a result, the management that is setting the direction is distant from those who know the business the best.
- Inconsistent presence of subject matter expertise in the management ranks - Repeated reorganizations, the interchange of gas and electric supervisors and managers, the homogenization of gas transmission and distribution personnel, the large presence of telecommunications, legal and finance executives in top leadership positions, and the under representation of engineers and professionals with significant operating experience in the natural gas utility industry have impaired the effectiveness of the organization.
- Appearance-led strategy setting - In a business with the complexity of PG&Es, there is no substitute for long-term planning and careful execution, but there appears to be an elevated concern about the company's image that may get in the way of concentrating resources on the most important things. For example, PG&E announced Pipeline 2020 a few weeks after the San Bruno Incident, but the plan is grossly underdeveloped. We realize PG&E has to manage its relations with the media. However, putting forth a major initiative without having done the

necessary work underneath ultimately undermines the company's credibility with its employees as well as the public.

- Insularity – In many instances over its long and storied history, PG&E has been an industry innovator and leader, but no company can maintain its edge without a certain degree of humility and an outward focus, both of which enable it to learn from and be influenced by others. As a large company with many different disciplines represented, it is a challenge to be sure one is listening to outside colleagues as attentively as it does to internal voices. Beginning in 2000, when PG&E went through its bankruptcy, much of the outside interaction - participation in industry conferences, committees, testing programs and colloquia - was curtailed. One consequence of this lapse is there appears to be an insular mindset in many of the individuals we interviewed. The mindset, if not addressed, can breed a corporate myopia that stands in the way of an honest assessment of the company's strength, weaknesses, and performance relative to others. Absent a realistic view of a company's performance, the drive for continuous improvement is diminished.
- Overemphasis on financial performance - While the company has multiple stated goals, top management may be overly focused on financial performance. Certainly the company must be financially healthy to fulfill its mission, but when top management focuses on financial performance and does not appear to be engaged in operational safety and performance, leadership may dampen the willingness of the organization to challenge the priorities or resources put in place by upper management.

259. As the Panel found and documented in its report, the Individual Defendants had mismanaged PG&E for almost a decade. Despite knowing that they lacked the experience and expertise to manage a public utility, the Individual Defendants continued to overemphasize financial performance (profits) over operational and process safety (safety).

b. CPUC and Overland Consulting found that PG&E chronically dedicated insufficient resources to operational safety despite having more than sufficient money to do so

260. The CPUC initiated its own investigation and retained an independent firm, Overland Consulting, LLC ("Overland"), to review PG&E's gas transmission

1 safety-related activities from a financial and regulatory audit perspective. While the
 2 San Bruno pipeline explosion itself was a key part of the investigation, Overland also
 3 reviewed and audited PG&E's regulatory and financial compliance. The CPUC and
 4 Overland examined PG&E's natural gas transmission and storage expenditures over
 5 the prior 15 years to determine whether the amounts that the CPUC had authorized
 6 for gas pipeline safety investments were actually spent on safety investments.
 7 Authorized revenue was compared with actual costs for operations and maintenance
 8 expenses, capital expenditures, and rate-base expenditures. Overland's audit also
 9 compared authorized revenue requirements to actual revenue and actual return-on-
 10 equity to authorized levels.

11 261. Overland issued two separate reports, one in 2011 and the other in 2013.

12 **(i) The 2011 Overland Report**

13 262. In December 2011, Overland issued its first report to the CPUC (the
 14 "2011 Overland Report"). Among other things, Overland found that actual revenues
 15 collected from customers exceeded adopted revenues by \$224 million over the twelve-
 16 year study period. The audit also showed that P&E was provided rate recovery for
 17 pipeline transmission operations and maintenance, but that every year since 1996,
 18 PG&E spent \$39 million less than the CPUC authorized over the period 1997 to 2010.
 19 *In other words, for over a decade, PG&E intentionally spent less money on*
 20 *maintenance and operations than it represented was necessary to ensure that*
 21 *PG&E's pipelines and infrastructure were safe.*

22 263. Chapter 2 of the 2011 Overland Report titled "**Background and**
 23 **Approach**" described the scope of the audit:

24 The catalyst for the audit was the gas transmission pipeline rupture that
 25 occurred in a residential area of San Bruno, California, on September 9,
 26 2010. The natural gas released by the rupture ignited and caused a fire
 27 that destroyed 38 homes and damaged 80. Eight people were killed and
 28 many more were injured. The audit focused on PG&E's gas transmission
 safety-related activities from a financial and ratemaking perspective. The
 audit is intended to complement, rather than duplicate, the engineering
 and operations analysis conducted by the CPSD Staff, the Independent

Review Panel and the National Transportation Safety Board. A review of the gas distribution system was outside the scope of the audit.

264. The work performed during Overland's focused audit included:

- Comparing actual gas transmission safety-related O&M [operations and maintenance] expenses and capital expenditures to the levels included in rates.
- Investigating the reasons for variances between the actual and adopted amounts.
- Reviewing PG&E's planning documents for evidence that gas transmission safety resources were constrained for financial reasons.
- Reviewing gas transmission staffing levels and operational metrics for evidence of resource constraints impacting gas safety.
- Reviewing the financial performance of PG&E's gas transmission business to determine if earnings were sufficient to support investments in gas safety.

265. Chapter 3 of the 2011 Overland Report titled **O&M Expenses** concluded that:

During the period 1997 to 2010, total GT&S functional O&M expenses were 3.8% lower than adopted. PG&E's pipeline safety costs are included in the transmission function. Transmission O&M expenses were 5.0% lower than adopted.¹⁹

Actual transmission O&M was \$39 million lower than adopted over the fourteen-year study period. Actual transmission O&M was lower than adopted in all but one of the years in the study period. The average annual difference was \$2.8 million. **The consistent underspending on transmission O&M had negative implications for gas pipeline safety.**

PG&E's transmission maintenance costs (MWC BX) increased at an average annual rate of 1.2% between 1997 and 2009.²⁰ Pipeline maintenance requirements increase as facilities age, system throughput

¹⁹ Actual O&M expenses were adjusted to eliminate costs that are excluded from GT&S base rate cases, including the San Bruno incident costs incurred by PG&E in 2010.

²⁰ PG&E incurred \$21.8 million in O&M expenses related to the San Bruno incident in 2010. Overland excluded those costs from 2010 actual costs. Overland excluded 2010 from the transmission O&M trend analysis because it may have been distorted by the diversion of resources to San Bruno related work. Actual 2010 transmission O&M expenses, excluding San Bruno related costs, were 7.9 percent lower than 1997 costs.

1 increases and the system grows. The low rate of escalation in
2 transmission maintenance costs is an indication of resource constraints in
3 pipeline maintenance.

4 266. Chapter 5 of the 2011 Overland Report titled **Return on Equity** found
5 that:

6 The GT&S operations have been highly profitable since the Gas Accord
7 Structure was implemented in March 1998. The actual return on equity
8 (ROE) earned by GT&S operations averaged 14.2% during 1999 through
9 2010. PG&E's authorized ROE averaged 11.2% over that same period.

10 PG&E's GT&S revenues were \$430 million higher than the amounts
11 needed to earn the authorized return during the twelve-year study period.
12 The surplus revenues averaged \$36 million a year. **PG&E could have
13 used the surplus revenues, at least in part, to improve gas safety.
14 Instead PG&E chose to use the surplus revenues for general
15 corporate purposes.**

16 267. Chapter 6 of the 2011 Overland Report titled **Staffing and Metrics**
17 concluded that:

18 The total headcount in PG&E's GT&S organizations decreased from 513
19 in December 1996 to 474 in December 2010. The union headcount
20 decreased from 284 to 220. The union headcount in GT&S District
21 Operations and Centralized Maintenance (DCM) organizations decreased
22 by from 205 in 1996 to 146 in 2010. The large reductions in DCM
23 headcount imply resource constraints in pipeline maintenance.

24 PG&E's local transmission lines are maintained by its gas distribution
25 divisions. The total headcount in PG&E's gas distribution divisions fell by
26 28% between 1996 and 2010. PG&E discovered serious safety related
27 deficiencies in its gas distribution operations in 2007, 2008 and 2009. **The
28 large distribution headcount reductions and safety-related
deficiencies have negative implications for local transmission
pipeline safety.**

PG&E significantly reduced the use of In-Line Inspections [("ILI")] in
2009 and 2010. During 2005 to 2008, ILI accounted for 53% of the total
miles assessed. In 2009 and 2010, ILI only accounted for 13% of the miles
assessed.

PG&E no longer prepares metrics, goals or annual reports for its gas
transmission pipeline risk management program. PG&E does not prepare
separate risk management plans or track risk management projects. Risk
continues to be a factor in prioritizing projects. **However, the evidence
suggests risk management continued to be a separate program in
name only at some point after 2004.**

1 PG&E does not monitor the miles of pipeline it leak surveys on a
2 centralized basis. PG&E cannot provide actual leak survey mileage
3 statistics for its backbone and local transmission systems. The inability to
4 monitor leak survey miles on a centralized basis is an indication of a
weakness in policies and procedures and safety-related resource

5 PG&E reported a large increase in the number of transmission pipeline
6 leaks in 2009 and 2010. Those leaks were discovered in special leak
7 surveys implemented in response to the discovery of serious systematic
8 deficiencies in PG&E's leak survey program and the San Bruno Incident. **The
large number of leaks discovered in the special leak surveys indicates
that leak survey resources were inadequate prior to 2009.**

9 The corrective work order backlog in PG&E's GT&S operations districts
10 increased significantly in 2008 through 2010. The increase in the backlog
indicates significant resource constraints in those years.

11 268. Chapter 7 of the 2011 Overland Report titled **1996-2008 Resource
12 Constraints** reported that:

13 The planning documentation reviewed by Overland does not contain
14 many references to significant budget constraints prior to 2007. **The 1999
15 through 2001 documentation shows that the gas transmission
pipeline Risk Management Program was viewed internally as a
cost reduction initiative.**

16 PG&E discovered serious safety-related deficiencies in its gas distribution
17 operations in 2007, 2008 and 2009. Those deficiencies adversely impacted
18 local transmission safety and are indicative of safety-related resource
constraints.

19 GT&S was under significant pressure to reduce expenses in 2008, 2009
20 and 2010. The budget documentation for those years shows significant
resource constraints directly impacting pipeline safety funding.

21 Actual 2008 Integrity Management spending was 35% below the initial
22 budget request that GT&S submitted to the Finance Department. Actual
2008 maintenance spending was 21% below the initial request.

23 PG&E reduced 2008 Integrity Management expenses in two basic ways.
24 It changed the assessment method for some projects from ILI to ECDA
25 and it deferred some projects from 2008 to 2009. PG&E's internal
documentation clearly shows that resource constraints were driving the
26 deferrals and assessment method changes.

27 Maintenance spending was reduced by cutting the 2008 budget for
28 maintenance projects. The budget request for maintenance projects was
\$25.2 million. The approved project budget was \$13.4 million. **The 2008**

1 **approved maintenance project budget was 47% below the initial**
2 **request and 25% percent below the recommended minimum level.**

3 269. Chapter 8 of the 2011 Overland Report titled **2009 Resource**

4 **Constraints** determined that:

5 GT&S was under significant pressure to reduce expenses for the second
6 straight year in 2009. PG&E's 2009 budget documentation shows
7 significant resource constraints directly impacting pipeline safety funding.

8 The Integrity Management expense budget was set 32 percent below the
9 initial budget request. The integrity management budget was reduced by
10 an additional 10 percent in May 2009 to offset unplanned maintenance
11 costs. Actual 2009 integrity management expense was only 2.4 percent
12 higher than the already constrained 2008 actual spending level.

13 270. PG&E reduced integrity management spending in two basic ways in 2009.

14 It changed the assessment method for some projects from In-line Inspections ("ILI") to
15 External Corrosion Direct Assessments ("ECDA"), and it deferred some projects to
16 2010. The February 2009 Expense Program Review indicates integrity management
17 "altered inspection methods to significantly reduce costs from \$23 million to \$17
18 million in 2009." PG&E also deferred 41 miles of HCA assessments from 2009 to 2010.
19 Those miles were deferred to "help manage 2009 GT expense spend." In other words,
20 PG&E chose not to conduct assessments on 41 miles of pipelines in High Consequence
21 Areas, such as densely populated urban and suburban areas, in order to boost short-
22 term profits.

23 271. Chapter 9 of the 2011 Overland Report titled **2010 Resource**

24 **Constraints** reported that:

25 GT&S was under significant pressure to reduce expenses for a third
26 straight year in 2010. The 2010 budget was set \$6.7 million below the
27 already constrained 2009 actual expense level.

28 The 2010 maintenance budget was set 24% below the amount requested
 initially by GT&S. The Integrity Management budget was set 11% below
 the initial request.

 PG&E cut the 2010 Integrity Management budget in two basic ways. It
 deferred projects to future years and it reduced the scope of the program

1 by changing the definition of the covered pipelines.²¹

2 GT&S developed 21 formal cost reduction initiatives to bridge the gap
3 between its budget request and the budget target set by management.
4 PG&E adopted a cost reduction initiative to change Integrity
5 Management assessment methods from ILI to ECDA. The assessment
6 method change initiative created “headroom” in 2011 and 2012 that
7 allowed PG&E to defer Integrity Management projects from 2010 to those
8 years. The assessment method changes and project deferrals were clearly
9 driven by resource constraints. Preparing for the May 2010 CPUC audit of
10 PG&E’s Integrity Management program consumed about two thirds of the
11 Integrity Management organization’s time for six months. The amount of
12 effort required to prepare for the audit is an indication of a large backlog
13 of incomplete work - apparently due to significant staffing shortages.

14 The cost reduction initiatives developed to meet management’s budget
15 target included several initiatives to reduce maintenance spending. One
16 of the initiatives adopted by PG&E deferred all maintenance project work
17 that was not required by code or contractual obligation. The 2010
18 maintenance project budget was set at \$13.0 million, which equaled the
19 heavily constrained 2009 project budget. PG&E also reduced maintenance
20 spending by deferring corrective maintenance.

21 GT&S expenses were heavily constrained in 2010 and those constraints
22 directly impacted pipeline safety funding.

23 (ii) The 2013 Overland Report

24 272. On May 31, 2013, Overland issued a second report. The 2013 Overland
25 Report found that there were serious deficiencies in PG&E’s pipeline and
26 infrastructure network that had existed for almost a decade. The 2013 Overland
27 Report found that PG&E consistently spent less on operations and maintenance than it
28 should have. PG&E adopted a higher amount for O&M expenditures, meaning it told
the CPUC that it would spend a higher amount of money for O&M than what it
actually spent. This was a consistent trend for PG&E. According to the 2013 Overland
Report, “[t]he pervasiveness of the deficiencies [at PG&E] demonstrates that their
ultimate root cause was ineffective or unresponsive executive management.” For
almost a decade, ineffective and unresponsive executive management, for which the

27 ²¹ After the budget was adopted, PG&E decided not to change the definition. The
28 budget was not increased to reflect that decision.

1 Individual Defendants must take responsibility, explains why there have been
2 consistent deficiencies in PG&E's operations.

3 273. The 2013 Overland Report was focused on auditing the financials of
4 PG&E, specifically in regards to how monies earmarked for safety were actually spent.

5 274. The work performed during this second audit by Overland included:

- 6 • Comparing actual gas distribution O&M expenses and capital
7 expenditures for the years 1999 to 2010 to the amounts adopted in
8 PG&E's General Rate Cases and documenting the reasons for significant
9 differences between the actual and adopted amounts;
 - 10 • Comparing the actual return-on-equity earned by PG&E's gas
11 distribution to its authorized return-on-equity from 2003 to 2010;
 - 12 • Reviewing gas distribution staffing levels and operational metrics for
13 evidence of resource constraints from 2003 through 2010;
 - 14 • Reviewing PG&E's budget process and internal planning documents for
15 evidence that gas distribution resources were constrained for financial
16 reasons from 2003 through 2010;
- 17 and
- 18 • Reviewing PG&E's internal documents for indications of gas distribution
19 management deficiencies and estimating the impact of such deficiencies
20 on actual spending from 2003 through 2010.

21 275. One of the key findings of the 2013 Overland Report was that PG&E's
22 "[e]xecutive leadership, process controls, internal communication, staffing, training,
23 supervision, record keeping, auditing, information systems, asset knowledge, metrics
24 reporting, and data analysis were all deficient. The result was substandard work
25 quality and widespread non-compliance with PG&E's own standards."

26 276. The 2013 Overland Report added that "PG&E significantly underfunded
27 its gas distribution operations prior to 2008. Resource constraints were a significant
28 root cause of the deficiencies. At the same time, the profits made by the gas

1 distribution operations exceeded the levels authorized by the Commission.” **In other**
 2 **words, the Individual Defendants were knowingly and intentionally**
 3 **underfunding PG&E’s critical gas distribution operations, even though the**
 4 **company was making higher profits than what was authorized by the CPUC.**
 5 As such, Defendants cannot claim they lacked the resources to maintain PG&E’s
 6 transmission and distribution pipelines. Defendants simply chose not to do so, in
 7 violation of their fiduciary duties and obligations to PG&E.

8 277. The key findings of the 2013 Overland Report were:

- 9 • **PG&E identified serious deficiencies in its gas distribution**
 10 **operations in 2007 and 2008. The evidence suggests the**
 11 **deficiencies date back to the mid-1990s.** Management failed to detect,
 12 or chose to ignore, these deficiencies until employees publicly raised issues
 13 at PG&E’s annual shareholders meeting in April 2007.
- 14 • **PG&E underfunded and understaffed its gas distribution**
 15 **operations from the mid-to-late 1990s through 2007.** Resource
 16 constraints were a significant contributing factor to the deficiencies in
 17 management, policies and procedures.
- 18 • PG&E began corrective actions starting in October 2007. However, these
 19 corrective actions produced mixed results, as demonstrated by PG&E’s
 20 own internal reviews.
- 21 • PG&E’s actual O&M expenses were 13% lower than adopted from 1999 to
 22 2007. The underspending averaged \$18 million a year during that period.
 23 Spending increased in 2008 and again in 2009 as PG&E implemented
 24 corrective actions.

25 From 2008 through 2010, actual O&M was 25% higher than adopted.

- 26 • Actual capital expenditures were 6.5% lower than adopted from 1999 to
 27 2010. PG&E spent \$168 million less than adopted during that twelve-
 28 year period. **The underspending was concentrated in safety-**
related categories. Safety-related capital expenditures were
13.3% lower than adopted.
- PG&E’s gas distribution operations earned an average actual return-on-
 equity (ROE) of 12.7% from 2003 to 2010 stated on a regulatory basis.
 PG&E’s authorized ROE averaged 11.3% over the same period. **PG&E’s**
gas distribution revenues were \$202 million higher than the
amount needed to earn its authorized ROE over the eight-year
study period.

278. The reference to “adopted” is essentially what PG&E stated was the

1 amount of money it would need to properly operate and maintain its pipeline network.
2 This is what the CPUC understood was the amount of money needed to properly
3 operate and maintain PG&E's pipeline network. When PG&E spends less than
4 adopted, that means it is spending less money than what it represented was necessary
5 for the company. For almost a decade, PG&E consistently spent less in actual dollars
6 for safety than what it represented was necessary. This was all approved by the
7 Defendants who had created and endorsed practices that fostered a high likelihood of a
8 catastrophic incident in its operations.

9 279. The 2013 Overland Report continued by stating that "[t]he pervasiveness
10 of the deficiencies demonstrates that their ultimate root cause was ineffective or
11 unresponsive executive management. The executives in charge of PG&E's gas
12 distribution operations placed excessive emphasis on cost containment and inadequate
13 emphasis on work quality and public safety prior to 2008." In other words, profits over
14 safety was not just an aspirational goal for PG&E under the leadership of the
15 Individual Defendants but a policy implemented by the Individual Defendants.

16 280. With regard to O&M (operations and maintenance) expenses, the 2013
17 Overland Report found that "[d]uring the period 1999 to 2007, actual spending was
18 12.9% lower than adopted. The underspending averaged \$17.7 million per year during
19 that period. Resource constraints imposed by management were a significant
20 contributing factor to the underspending during those years." Simply put, the reason
21 that PG&E was spending less money on safety was because management, particularly
22 the Defendants, were making an active and conscious decision to sacrifice safety for the
23 sake of short-term financial performance.

24 281. In regards to capital expenditures, the 2013 Overland Report found that
25 "actual gas distribution functional capital expenditures were 6.5% lower than adopted.
26 PG&E spent \$168 million less than adopted over the entire study period." In other
27 words, PG&E was routinely spending significantly less in capital expenditures for its
28 gas distribution network than what it was representing was necessary.

1 282. The 2013 Overland Report found that the **underspending on capital**
2 **expenditures was concentrated in safety-related categories**. According the 2013
3 Overland Report, “[a]ctual safety-related capital expenditures were 13.3% lower than
4 adopted. Safety-related capital expenditures were \$159 million lower than adopted
5 during 1999 to 2010.”

6 283. The 2013 Overland Report found that “[s]afety related capital
7 expenditures were lower than adopted in every year from 1999 to 2006, except for 2003.
8 Safety-related capital expenditures were \$274 million lower than adopted in 1999 to
9 2006.”

10 284. The 2013 Overland Report also found that PG&E made long-term gas
11 safety a low priority. “PG&E assigned a low funding priority to long-term gas safety
12 programs during the audit period. PG&E generally viewed long-term gas safety
13 programs as discretionary spending that could be deferred to meet its overall budget
14 targets. The GPRP [Gas Pipeline Replacement Program], MPP [Meter Protection
15 Program] and ISSP [Isolated Steel Services Program] were poorly funded throughout
16 the audit period.” Only the CSRP (Copper Services Replacement Program), which
17 began in 2006, was funded.

18 285. In regards to return on equity, the 2013 Overland Report found that
19 “PG&E’s total gas operations earned an average actual ROE of 12.8% during the
20 period 2003 to 2010, stated on a CPUC regulatory basis. PG&E’s authorized ROE
21 averaged 11.3% over the same period.” PG&E therefore routinely earned a higher
22 return on equity than was authorized by the CPUC. This money could have been
23 earmarked for safety but was not. Simply put, PG&E had the resources to ensure that
24 its gas pipeline network and other infrastructure were safe but chose to divert the
25 money somewhere else.

26 286. According to the 2013 Overland Report, “PG&E reduced its gas
27 distribution staffing by 29% between December 1996 and December 2010. During the
28 same period, the number of gas distribution customers grew by 15.5%. The large

1 headcount reductions are a primary indication of resource constraints in gas
2 distribution.” The Individual Defendants intentionally reduced and cut PG&E’s gas
3 distribution headcount at a time when the company was adding more customers. The
4 Individual Defendants therefore knew that they were creating a high risk of a
5 catastrophic incident such as the explosions in Rancho Cordova and San Bruno. Even
6 after those incidents, Defendants continue to limit what the company spends on safety
7 in order to protect its profits.

8 287. The 2013 Overland Report found that PG&E’s budget documentation
9 process was woefully inadequate, and that that “[t]he available documentation for the
10 2008 to 2010 budget years demonstrates that **PG&E gave a relatively low priority**
11 **to gas safety spending** in those years:

12 The budget process started with initial budgets set by senior
13 management. The basis for the initial budget targets was poorly
14 documented. The next major step in the process was the submission of
15 initial budget requests by the various organizations included in the
16 budget. PG&E did not retain the gas distribution initial budget requests
17 for the 2003 through 2008 budget years. PG&E cannot show how the
18 budget requests in those years were prioritized. The gas distribution
19 budget requests for 2009 and 2010 were poorly documented.

20 The initial budget requests were reviewed and adjusted by a central
21 budget committee and senior management. Those **processes were**
22 **completely undocumented**. PG&E did not retain the initial approved
23 budgets for most of the years in the study period. PG&E cannot provide
24 the initial approved gas distribution expense budgets by MWC [Major
25 Work Categories] for 2003, 2004, 2005, 2007 or 2008.

26 288. These process failures are the responsibility of the Individual Defendants
27 – who have the ultimate responsibility for ensuring that operational and process safety
28 is a priority at PG&E, as reflected in the budget, and that there is adequate
documentation to show that those safety objectives are being met. Instead, PG&E
made safety a very low budget priority. Furthermore, PG&E’s poor documentation
makes it impossible to assess the methodology behind PG&E’s budgeting for
operational and process safety.

28 289. The 2013 Overland Report also discussed PG&E’s planning documents,

1 which were used to determine PG&E's future plans for operating and maintaining its
2 gas pipeline network. The 2013 Overland Report stated:

3 **The 2003 to 2010 planning documents demonstrate a heavy**
4 **emphasis on cost reduction and on limiting spending to budgeted**
5 **amounts. The 2003 to 2010 planning documents contain very little**
6 **discussion of public safety.**

7 The 2003 to 2005 planning documents contained benchmarking tables
8 that compared PG&E to other gas distribution utilities. The comparisons
9 demonstrated that PG&E was spending significantly less on gas
10 distribution O&M expenses than its peers. **PG&E was also repairing**
11 **far fewer leaks than its peers.**

12 The 2003 to 2006 planning documents contained tables listing key gas
13 distribution initiatives. The initiatives demonstrated a heavy emphasis
14 on cost reduction. Cost reduction was a primary goal of 10 of the 18
15 initiatives.

16 **The key metrics reported in the planning documents emphasized**
17 **cost reduction rather than public safety or work quality.**

18 290. The 2013 Overland Report also demonstrated that the Individual
19 Defendants were well aware of the deficiencies at PG&E and chose to ignore them.

20 PG&E commissioned two consultant reviews of its preventative
21 maintenance programs in 1995. The consultant reports contain findings
22 that were echoed repeatedly in internal and external reviews prepared in
23 2007 and later years. **The 1995 consultant reports, and PG&E's 1997**
24 **internal compliance reviews, demonstrate the long history of**
25 **PG&E's gas distribution management deficiencies.**

26 PG&E implemented significant workforce reductions in 1993 and 1994.
27 PG&E continued to reduce its gas distribution workforce through 2010.
28 **The workforce reductions contributed to significant work quality**
issues identified by PG&E in 2007 and subsequent years.

Employee complaints about work practices and staffing levels prompted
two significant internal audits in 2007. The first was an internal audit of
leak detection in the North Bay and North Coast Divisions. The second
was an internal audit of regulator station and valve maintenance in Marin
County. **The internal audits discovered critical deficiencies in leak**
survey and maintenance practices. PG&E's follow-up
investigations demonstrated the deficiencies were pervasive
throughout its system.

The internal audit of leak detection in the North Coast Division prompted
PG&E to repeat its prior leak surveys in Sonoma County. The resurvey

1 process led to the discovery of systematic leak survey training and
2 operator qualification deficiencies.

3 PG&E conducted a study of its leak grading process in October 2007. The
4 study conclusively demonstrated that PG&E's leak grading standards
were not being applied consistently in the field.

5 291. The 2013 Overland Report confirmed that the Individual Defendants were
6 aware, for over a decade, that PG&E's operational and process safety procedures were
7 grossly inadequate and not being applied consistently. The Individual Defendants
8 were well aware that PG&E was understaffed and that the budget was insufficient to
9 ensure that PG&E's gas pipeline network was safe and secure. Nevertheless, the
10 Individual Defendants continued to push PG&E towards greater cost cutting at the
11 expense of safety, with full knowledge that they were creating a foreseeable increased
12 risk of a deadly explosion, such as those that occurred in Rancho Cordova and San
13 Bruno.

14 292. The 2013 Overland Report also found that PG&E had determined that its
15 prior leak survey process was ineffective. According to the 2013 Overland Report,
16 "PG&E identified a number of root causes for the leak survey deficiencies, including
17 inadequate planning, supervision and staffing. During the period 1999 to 2006, the
18 number of Grade 1 leaks discovered by leak surveys decreased by 68 percent. That
19 should have triggered a critical review of the leak survey process, but did not because
20 PG&E failed to analyze its leak survey results." In other words, the PG&E
21 commissioned a critical survey of leaks in PG&E's gas pipeline network and then never
22 analyzed the survey. PG&E therefore wasted all of the efforts of the individuals who
23 conducted the leak survey and recklessly and knowingly permitted the risk of a
24 catastrophic incident to continue to exist.

25 293. In 2008, PG&E already knew, based on a report from consulting firm
26 Exponent, that there were "pervasive system-wide deficiencies in PG&E's maintenance
27 practices." According to Exponent, "PG&E's written standards were not widely
28 understood or followed. Maintenance practices were not consistent across divisions.

1 Employees were performing activities based on their own personal determination of the
2 proper work methods. PG&E did not have an accurate gas distribution asset registry.
3 The asset lists maintained by the divisions were incomplete and inaccurate.” The 2013
4 Overland Report amplified:

5 **The records prepared to document maintenance activities were**
6 **inadequate. The records did not provide much information about**
7 **the work that was done. The lack of information recorded on the**
8 **records raised doubts about the quality of the work. The lack of**
9 **objective reliable data to verify work completion was an**
10 **important control weakness.**

11 Supervision of regulator station and valve maintenance was inadequate.
12 The supervisors did not have enough time to adequately supervise all of
13 the activities within their work scope. Some supervisors were not
14 qualified. The poor quality of the maintenance records demonstrated that
15 supervisor records reviews were not effective. Prior Quality Assurance
16 audits had failed to identify the systematic and recurring non-compliance
17 with PG&E standards documented by Exponent.

18 **Exponent concluded that a lack of accountability at multiple**
19 **levels of PG&E’s organization contributed to the deficiencies.**
20 PG&E did not have adequate communication channels for employees to
21 raise concerns. Field personnel felt they had little influence on
22 management about their immediate supervisor.

23 294. The 2013 Overland Report also found that a 2009 report, issued prior to
24 the San Bruno explosion, **had already warned the Defendants that PG&E’s**
25 **safety procedures and policies were inadequate.** According to the 2013 Overland
26 Report, “PG&E discovered critical deficiencies in its record keeping for service lines
27 installed by residential subdivision developers. Many of the records that the
28 developers were required to provide were missing. **The problem was pervasive**
29 **system-wide.** The root causes included wide-spread non-compliance with PG&E’s
30 standards, inadequate record management controls, inadequate auditing and poor
31 communication between departments.” The 2013 Overland Report concluded with a
32 **“Root Cause Analysis”** that states:

33 Several recurring themes emerged from the review of past management
34 deficiencies that explain, at least partially, the pervasiveness and root
35 causes of the deficiencies. Overland developed the themes into root cause

1 findings to provide insight into audit period spending patterns. This
2 Chapter presents those findings.

3 The evidence of serious deficiencies in the management of PG&E's gas
4 distribution operations during the audit period is overwhelming.
5 Management largely failed to detect, or chose to ignore, the deficiencies
6 until employees publically raised their concerns about operating practices
7 at PG&E's annual shareholders' meeting in April 2007.

8 PG&E began corrective actions in October 2007. The corrective actions
9 had mixed results, as demonstrated by PG&E's internal reviews. After
10 the San Bruno Incident (SBI), PG&E replaced most of its distribution
11 executive management and is currently in the process of reforming its gas
12 distribution operations.

13 Several key safety-related functions were inadequate during most of the
14 audit period. PG&E's leak survey program was ineffective prior to 2008,
15 as demonstrated by survey results. PG&E's leak grading practices were
16 inconsistent. PG&E's process for responding to customer leak complaints
17 was inadequate.

18 PG&E's maintenance processes were critically deficient as demonstrated
19 by Exponent's system-wide audit of regulator station and valve
20 maintenance. PG&E's damage prevention program was inadequate as
21 demonstrated by PG&E's dig-in rates and internal reviews. The
22 Company's mapping processes were critically deficient as demonstrated
23 by PWC's review and PG&E's internal audits.

24 PG&E's processes for collecting and organizing information about its gas
25 distribution facilities were inadequate. PG&E did not have an accurate
26 Asset Register or GIS at any point during the audit period. Much of
27 PG&E's asset knowledge was trapped in records that could not be
28 electronically searched. As a result, integrity management risk
assessments required labor intensive manual record searches. Record
keeping practices were inadequate throughout the audit period. PG&E's
maintenance and leak survey records were incomplete and inaccurate.
PG&E's leak survey data base lacked effective data quality controls.
Records were frequently missing and PG&E did not have controls to
assure that its records were complete.

With one exception, PG&E's long-term gas safety programs were poorly-
funded throughout the audit period. Management viewed long-term gas
safety programs as discretionary spending that could be deferred to meet
budget targets.

295. The 2013 Overland Report identified eight root causes for the pervasive
deficiencies in PG&E's gas distribution management:

- 1 • **Insufficient management focus on work quality and public**
- 2 **safety;**
- 3 • Ineffective communications between management and the field
- 4 and among departments;
- 5 • Inadequate direction of the work methods used by field employees;
- 6 • Inadequate staffing and other resources;
- 7 • Ineffective supervision and quality control;
- 8 • Inadequate quality assurance;
- 9 • **Failure to collect and organize critical operating data; and**
- 10 • **Failure to analyze the data that was available.**

12 296. The 2013 Overland Report noted that the “metrics used by management
13 were focused on reducing unit costs instead of improving work quality.” The report also
14 noted that “[e]mployees had the impression that quality was not a high priority for
15 management.”

16 297. According to the 2013 Overland Report, which is consistent with the
17 reports of individual employees was that “[t]he metrics emphasized by management
18 was focused on production over quality. Field supervisors did not understand the
19 metrics and viewed them as punitive. The leak repair metric encouraged employees to
20 find fewer leaks. One cost reduction initiative included a monthly report to encourage
21 supervisors to downgrade leaks. The on-time appointment metric for Gas Service
22 Representatives encouraged them to minimize the time spent on leak investigations.
23 Work quality metrics were generally not tracked.”

24 298. The 2013 Overland Report noted that “[l]eak surveys are a critical
25 component of a gas safety program. Leak survey was treated as low priority work.
26 Leak surveyors were frequently diverted to other work and were then pressured to
27 complete their scheduled surveys by end of month to meet compliance deadlines.”

28 299. In other words, PG&E had created a broken incentive system in which

1 PG&E employees were financially incentivized to find “no leak” or to “downgrade
2 leaks.” These incentives were not designed to incentive employees to actually fix or
3 repair leaks but simply to categorize dangerous existing leaks as “non-leaks” or “low-
4 level leaks.” This helped PG&E in protecting its short-term finances. However, from a
5 long-term view, this significantly harmed PG&E since it made a dangerous and
6 catastrophic incident inevitable. As the explosions in Rancho Cordova and San Bruno
7 show, those risks became realities. The Individual Defendants, however, knew that
8 those risks were likely but still chose to ignore them.

9 300. According to the 2013 Overland Report, “[t]he pervasiveness of the
10 **deficiencies demonstrates that their ultimate cause was ineffective executive**
11 **management.** The executives in charge of PG&E’s gas distribution operations placed
12 excessive emphasis on cost containment and failed to properly manage the operations.”
13 These failures are ultimately the responsibility of the Individual Defendants who are
14 top executives and directors of PG&E and PG&E Corp. and therefore owe fiduciary
15 duties of care and loyalty to PG&E, PG&E Corp., and their shareholders. The
16 Individual Defendants owed PG&E and PG&E Corp. the duty to exercise the utmost
17 care and diligence in the management, supervision and direction, both in terms of
18 direct leadership but also in setting policies and procedures and in developing
19 corporate culture. Through Individual Defendants’ misconduct, they failed to exercise
20 leadership, established policies and procedures that created a high risk of a
21 catastrophic incident (which would significantly harm PG&E Corp, PG&E and their
22 shareholders), encouraged a corporate culture in which short-term profits superseded
23 safety, and ignored clear red flag warnings of safety problems. The Individual
24 Defendants knew or recklessly ignored reports for over a decade showing that safety
25 was a low priority at PG&E due to budget reductions for safety concerns, reduced
26 headcount and loss of technical expertise. The Individual Defendants made no effort to
27 rectify these errors and instead exacerbated them by implementing and maintaining
28 policies and procedures designed to cut costs, regardless of the impact such cuts would

1 have on safety. Profits over safety became the driver of policy-making at PG&E
2 because of the Individual Defendants.

3 301. As the 2013 Overland Report concludes, “concerns about PG&E’s
4 corporate culture remain.”

5 **8. California Administrative Judges reprimanded PG&E**
6 **for intentionally concealing inadequate recordkeeping**

7 302. In the aftermath of the 2010 San Bruno pipeline explosion, PG&E
8 continues to conceal its deficient recordkeeping. As a result, in addition to the
9 proposed \$2.25 billion penalty for years of lax regulation compliance that resulted in
10 the catastrophes such as the San Bruno and Rancho Cordova explosions, PG&E
11 remains subject to fines for incomplete records, demonstrating that PG&E has failed to
12 learn its lesson, even after deadly pipeline explosions.

13 303. In July of 2013, PG&E disclosed what it claimed were “newly discovered”
14 problems with major transmission lines between San Carlos and Millbrae. That
15 information, however, was withheld at least for several months, if not longer.
16 According to state regulators, PG&E used flawed documentation to support its claim
17 that two Peninsula natural gas pipelines were safe. With PG&E’s history of shoddy
18 recordkeeping, PG&E should never have continued to rely on inaccurate
19 documentation, especially to validate its pipelines to be safe. The very same reliance
20 on inadequate recordkeeping played a major role in the 2010 San Bruno disaster, with
21 PG&E failing to properly assess or test the integrity of its pipeline because it did not
22 think, based on its notoriously incomplete and inaccurate documentation, that there
23 was a seam in the pipeline and that a section had been cobbled together from scrap
24 pipe from an unknown source. PG&E’s continuing problems reveals that PG&E has
25 not changed its corporate philosophy and policies in a manner that will prevent
26 another disaster, despite representations by PG&E’s leadership that it had changed its
27 ways.

28 304. According to a pair of administrative law judges for the CPUC, PG&E

1 sought to surreptitiously slip in major corrections to their pipelines as a routine filing
2 with the CPUC. The filing occurred one day before the Fourth of July holiday.

3 305. CPUC Administrative Judges Karen Clopton and Maribeth Bushey wrote
4 that “PG&E appears to be revealing a substantial error” and masking it as a “routine
5 correction.” They further explained that PG&E’s conduct “could be seen as an **attempt**
6 **to mislead the commission and the public on the significance of this new**
7 **information.**” Clopton and Bushey are threatening to levy substantial fines against
8 PG&E for violating CPUC rules.

9 306. One of the changes that PG&E made in the aftermath of the 2010 San
10 Bruno pipeline explosion was lowering the pressure on nearby Peninsula lines while it
11 verified the accuracy of their records. Those lines included a backbone line that runs
12 from Milpitas to San Francisco, called Line 101, and a connector line between that pipe
13 and the line that blew up in San Bruno.

14 307. In 2011, PG&E publicly declared the records for both lines were accurate
15 and sought to boost the pressure back to pre-disaster levels.

16 308. A year later, in fall of 2012, PG&E dug up the connector line in San Carlos
17 to repair a minor leak and found that the pipe was of significantly lesser quality than
18 the company records indicated. In other words, PG&E had represented to the CPUC
19 that their records were accurate, that the pipeline was safe, and that it should be
20 allowed to increase pressure in the pipeline. However, all of this was untrue, once again
21 putting PG&E in a position of operating its transmission lines in an unsafe manner.

22 309. The records said that the connector line, known as Line 147, had robust
23 welded seams or no seams at all. This means that there was little to no risk of a pipe
24 failure which could result in another catastrophic explosion. **The PG&E workers,**
25 **however, found that there were several stretches of pipe that had a**
26 **problematic type of welded seam.**

27 310. In regards to Line 101, PG&E claims it “belatedly” realized in 2012 that it
28 had improperly relied on a 1989 water-pressure test to establish the line’s strength in

1 Millbrae. This meant that PG&E had been running the line in an urban area with
2 dangerously high pressure levels.

3 311. PG&E acknowledged both errors in a July 3, 2013 filing with the CPUC,
4 long after it discovered the problem. No explanation was provided for this delay in
5 reporting these problems. PG&E described these problems as data “errata.”

6 312. This alarmed both CPUC administrative judges, who wrote that “[t]he
7 continuing inaccuracy of PG&E’s records and the happenstance means by which this
8 most recent instance of erroneous records was discovered” are troubling. The judges
9 ordered that PG&E appear to explain its conduct before California state regulators.

10 313. The timing of the filing (one day before the Fourth of July holiday) and the
11 flippant manner in which PG&E described dangerous pipeline problems as “errata”
12 raised serious questions about PG&E’s continued misconduct because PG&E’s
13 recordkeeping practices continue to be “an extraordinarily controversial issue” and the
14 subject of intense public interest. PG&E’s admission that it continues to make highly
15 dangerous decisions based on documents that it knows are flawed and inaccurate is
16 indefensible. PG&E also continues to delay disclosing problems to the regulators and,
17 when it does make disclosures, it does not do so with complete transparency.

18 314. Clopton and Bushey ordered PG&E officials to appear at a hearing on
19 September 6, 2013, and as a result of that hearing, they could recommend fines against
20 PG&E for as many as five different rules violations governing submissions to the
21 commission.

22 **9. The CPUC forced PG&E to shut down its pipeline in San**
23 **Carlos because of continuing concerns that the pipeline**
24 **is unsafe**

25 315. As further evidence that PG&E has not changed its ways, PG&E was
26 forced to shut down a gas pipeline (Line 147) in San Carlos while CPUC investigators
27 determine whether or not the gas pipeline was safe. The line runs the length of San
28 Carlos beneath Brittan Avenue.

316. On October 4, 2013, a San Mateo County judge ordered the potentially

1 dangerous gas pipeline shut down, despite protests from PG&E that the gas pipeline
2 was safe. With PG&E's notoriously unreliable recordkeeping, PG&E's protests were
3 not credible. Four days later, on October 8, 2013, the CPUC issued a decision
4 upholding the decision to keep the gas pipeline shut.

5 317. The decision to shut down the gas pipeline began after San Carlos officials
6 learned that a PG&E engineer had asked in an internal e-mail in 2012 whether the
7 company was "sitting on another San Bruno situation" in regards to the San Carlos
8 pipeline. The PG&E internal e-mails that were received by the City of San Mateo
9 contain information about Line 147 after a leak was repaired in November of 2012.

10 318. CPUC officials said that investigators will begin examining the pipeline to
11 "determine whether any immediate safety concerns are posed." PG&E officials
12 acknowledged that portions of the 3.8 mile pipe were salvaged from another nearby
13 pipeline, a fact that was not reflected in PG&E's "official" records.

14 319. Due to the justifiable lack of faith in PG&E's records, the City of San
15 Carlos is considering whether or not to spend \$250,000 in order to hire experts to verify
16 that the pipeline under the city is safe. "We don't want to overreact, but we don't want
17 to underreact either," San Carlos City Manager Jeff Maltbie said. "We want to make
18 sure that the information that's been provided ... is accurate." The City of San Carlos
19 wants to hire legal and engineering experts to audit records, reports and information
20 PG&E has been ordered to submit to the California Public Utilities Commission as part
21 of the ongoing investigation of Pipeline 147.

22 320. The fact that local public entities are being forced, even now, to spend
23 public monies to ensure that the gas pipelines near them are safe, demonstrates that
24 PG&E has not changed. PG&E continues to maintain that its recordkeeping is
25 adequate, even though it was well known and is still known within the company that
26 its recordkeeping is riddled with serious gaps and inaccuracies. Public entities and
27 California residents have little faith in statements by PG&E that pipelines are "safe"
28 because PG&E has proven that such statements are not reliable.

**IX. DAMAGES TO PG&E AND PG&E CORP. CAUSED
BY THE INDIVIDUAL DEFENDANTS**

321. The Individual Defendants' wrongdoing has already damaged the Company by over \$2.2 billion in damages and fines relating to the San Bruno Explosion, as follows:

- (a) **\$1.6 billion in fines** - these fines are comprised of \$300 million paid to California's State General Fund, a one-time \$400 million credit to the Company's natural gas customers, \$850 million to fund future pipeline safety projects, and remedial measures that the PUC estimates will cost PG&E at least \$50 million;
- (b) **\$620 million in compensation** paid to settle damages claims relating to the San Bruno explosion, comprised of approximately \$500 million to the victims and families of the San Bruno accident, \$50 million to the City of San Bruno for costs related to recovery, and \$70 million to support the city's and community's recovery efforts.²²

322. In addition, as the Company has admitted in filings with the U.S. Securities and Exchange Commission ("SEC"), PG&E faces a potential maximum alternative minimum fine **of another \$1.13 billion** for the criminal charges in the Superseding Indictment.²³ The criminal trial is scheduled to begin on March 22, 2016 in San Francisco.

323. The Company's goodwill and reputation have been severely damaged by defendants' wrongdoing. In its Form 10-Q filed with the SEC regarding the Company's Q3 2015 financial results, the Company specifically admitted "the harm to

²² See July 29, 2014 PG&E press release entitled "As Government Recasts Case, PG&E Reiterates Commitment to Safety and Underscores Its Position That Federal Charges Are Not Merited," available at http://PG&E.com/about/newsroom/newsreleases/20140729/as_government_recasts_case_PG&E_reiterates_commitment_to_safety_and_underscores_its_position_that_federal_charges_are_not_merited.shtml, last visited February 10, 2016.

²³ See Q3 2015 Form 10-Q filed with the SEC on October 28, 2015, at p. 42.

1 [PG&E and PG&E Corp.] reputations caused by the criminal prosecution of the
 2 Utility, the state and federal investigations of natural gas incidents, [and] improper
 3 communications between the CPUC and the Utility.”

4 324. The Company also faces the risk that the Court orders a third party
 5 monitor to oversee its operations and that the Company could be debarred from
 6 entering into federal procurement and non-procurement contracts and programs. As
 7 admitted by the Company in its Annual Report filed February 18, 2016: “[Due to the
 8 criminal indictment], The Utility also could incur material costs, not recoverable
 9 through rates, to implement remedial measures that may be imposed by the court,
 10 such as a requirement that the Utility’s natural gas operations be supervised by a
 11 third-party monitor. The Utility could also be suspended or debarred from entering
 12 into federal procurement and non-procurement contracts and programs.”²⁴

13 325. Other risks, as admitted by the Company, are:

14 “The trial and the Utility’s conviction could harm the Utility’s
 15 relationships with regulators, legislators, communities, business
 16 partners, or other constituencies and make it more difficult to recruit
 17 qualified personnel and senior management. Further, they could
 18 negatively affect the outcome of future ratemaking and regulatory
 19 proceedings; for example, by enabling parties to challenge the Utility’s
 20 request to recover costs that the parties allege are somehow related to the
 21 criminal charges.

22 In addition, the Utility’s conviction could result in increased regulatory or
 23 legislative pressure to require the separation of the Utility’s electric and
 24 natural gas businesses, restructure the corporate relationship between
 25 PG&E Corporation and the Utility, or undergo some other fundamental
 26 corporate restructuring. As discussed under the heading “Regulatory
 27 Matters” in MD&A, the SED will evaluate PG&E Corporation’s and the
 28 Utility’s organizational structure in the CPUC’s pending investigation to
 examine the Utility’s safety culture.”²⁵

326. As a result of the Individual Defendants’ breaches of fiduciary duty,
 PG&E has expended millions of dollars on attorneys’ fees and expenses relating to the

²⁴ See 2016 Annual Report on Form 10-K, filed with the SEC Feb. 18, 2016, at p. 24.

²⁵ See 2016 Annual Report on Form 10-K, filed with the SEC Feb. 18, 2016, at p. 24.

lawsuits, Congressional hearings, state and federal investigations, and grand jury proceedings mentioned herein.

X. DERIVATIVE AND DEMAND FUTILITY ALLEGATIONS

327. Plaintiff brings this action derivatively in the right of and for the benefit of PG&E to redress injuries suffered and to be suffered by PG&E. This is not a collusive action to confer jurisdiction on this Court that it would not otherwise have.

328. Plaintiff will adequately and fairly represent the interests of PG&E in enforcing and prosecuting its rights.

329. Plaintiff was a shareholder of PG&E at the time of the wrongdoing complained of and has continuously been a shareholder and is a current PG&E shareholder.

330. Plaintiff incorporates by reference all preceding and subsequent paragraphs as fully set forth herein.

331. At the time of this filing, PG&E's Board consists of twelve members: defendants Smith, Chew, Herringer, Kimmel, Meserve, Rambo, Williams, Miller, Parra, Kelly, Fowler, and Earley. Plaintiff has not made any demand on the present Board to institute this action because such a demand would be a futile, wasteful, and useless act, as set forth below.

A. Demand Is Excused Because a Majority of the Current Board Faces a Substantial Likelihood of Liability for Causing the Company to Obstruct the NTSB Investigation

332. Demand is futile because a majority of the current Board caused PG&E to obstruct the NTSB investigation into the San Bruno gas explosion, causing the Company to be indicted for federal obstruction of justice charges and subjecting the Company to potential criminal fines, severe reputational damage, imposition of a third party monitor over the Company's gas operations, being debarred from entering into federal procurement and non-procurement contracts and programs, and other substantial damages.

1 333. The NTSB began an investigation immediately after the San Bruno
2 explosion on September 9, 2010. NTSB investigators were on-site for approximately
3 two weeks after the explosion. In addition, NTSB investigators issued numerous
4 requests for information and documents, interviewed witnesses, examined the
5 ruptured pipe and the events leading to the explosion, and held three days of public
6 hearings. The NTSB issued a public report on or about August 30, 2011, and
7 concluded, among other things, that PG&E's Integrity Management program was both
8 deficient and ineffective, and was a probable cause of the accident.

9 334. The NTSB's investigation revealed that among other deficiencies, PG&E's
10 records related to the establishment and calculation of the MOP and MAOP for Line
11 132 were incomplete and inaccurate. As a result, on January 3, 2011, the NTSB
12 issued three safety recommendations, two of which were designated "urgent." The
13 first urgent recommendation directed PG&E to "[a]ggressively and diligently search"
14 for records related to pipelines in HCAs that did not have the MAOP established
15 through prior hydrostatic testing. The second directed PG&E to calculate (based on
16 the records found in response to the first urgent recommendation) the valid MAOP for
17 pipelines that did not have the MAOP established through hydrostatic testing.

18 335. Additionally, in or about September 2010, through in or about December
19 2010, the NTSB sent PG&E a series of data requests concerning instances where
20 PG&E's planned and unplanned pressure increases exceeded the 5-year MOPs and/or
21 MAOPs of pipelines in HCAs.

22 336. On February 22, 2011, as part of its response to the NTSB's data
23 requests, PG&E attached a version of RMI-06 that provided that PG&E would only
24 consider a manufacturing threat as unstable if the pressure on the line exceeded the 5-
25 year MOP by 10% ("the 10% Version"). The cover sheet to the 10% Version indicated
26 that it was prepared in February 2008, and approved in March 2008.

27 337. On April 6, 2011, PG&E sent a letter to the NTSB, signed by Defendant
28 William D. Hayes, withdrawing the 10% Version sent in February 2011, claiming it

1 was an unapproved draft. The letter attached the original version of RMI-06 approved
2 in 2008, and a version of RMI-06 approved on April 5, 2011, neither of which included
3 the 10% language. In the letter, PG&E claimed it had recently discovered that the
4 10% Version submitted to the NTSB included the cover sheet for the original version
5 of RMI-06 approved in 2008, and that PG&E had no indication that the version with
6 the 10% language was ever approved.

7 338. Defendant Hayes, who signed the letter, reported at the time directly to
8 Defendant Geisha Williams, who is on the Board of Directors of PG&E. Geisha
9 reported directly at the time to Peter Darbee, who was PG&E Corp.'s CEO, President,
10 and Chairman of the Board. Upon information and belief, given the gravity of the
11 NTSB investigation and the fact that eight people died in the San Bruno explosion,
12 Hayes cleared his submissions to the NTSB, including the February 22, 2011 and
13 April 6, 2011 submissions, with both Williams, Darby, and the PG&E Corp. Board of
14 Directors before finalizing and submitting them to the NTSB. Defendants and current
15 Board Members Chew, Herringer, Kimmel, Meserve, Miller, Parra, Williams, and
16 Rambo, therefore, all of whom were directors of PG&E Corp. at the time and
17 responsible for the Company's conduct with respect to the NTSB investigation, knew
18 of and approved the misleading submissions to the NTSB. Since such directors
19 constitute a majority of the current Board, demand is excused since a majority of the
20 current Board acted in bad faith and breached their duties of loyalty and candor with
21 respect to the Company's response to the NTSB investigation, therefore causing the
22 Company to be indicted for obstruction of justice.

23 339. In those 2011 submissions to the NTSB, PG&E did not disclose that, from
24 in or about 2009 through in or about April 2011, its Integrity Management group
25 followed the practice set forth in the 10% Version by only considering manufacturing
26 threats active and high-risk if the pressure exceeded the MOP by 10%. The letter also
27 failed to disclose that PG&E knew the 10% Version was in violation of Section
28 192.917(e) and the guidance issued by PHMSA with respect to Section 192.917(e).

340. The Board's knowledge of the NTSB submissions and their direct supervision over Hayes and Williams is also demonstrated by the fact that *the Board itself* hired and supervised both Hayes and Williams. Hayes and Williams were hired at the same time. When they were hired, PG&E Corp. put out a press release dated November 1, 2007 which stated that the Board itself hired them: "PG&E Corporation today announced that its board of directors has elected Greg S. Pruett to senior vice president, Corporate Relations. In addition, the board of directors of PG&E Corporation's utility unit, Pacific Gas and Electric Company, has elected Patricia M. Lawicki as senior vice president and chief information officer for the utility; Geisha J. Williams as senior vice president, Energy Delivery; William D. Hayes as vice president, Maintenance and Construction; and Mark S. Johnson, vice president, Electric Operations and Engineering. 'Today's announcement reinforces the fact that we have incredible talent within our current team and that we also can enhance our management team from the outside as well,' said Peter A. Darbee, PG&E Corporation Chairman, CEO and President."²⁶

B. A Majority of the Board Faces a Substantial Likelihood of Liability for Causing the Company to Violate Federal and State Pipeline Safety Regulations

341. Defendants Chew, Herringer, Kimmel, Meserve, Parra, Rambo, and Williams cannot consider a demand because their decision to operate the Company in violation of the law is not a protected business decision and they all face a substantial likelihood of liability for breaching their fiduciary duties of loyalty, candor, and good faith. These defendants abdicated their fiduciary duties to PG&E. They were either

²⁶ See https://www.pge.com/en/about/newsroom/newsdetails/index.page?title=20151106_pge_corporation_appoints_jason_p_wells_svp_chief_financial_officer last visited February 18, 2016. As noted *supra*, the Boards of PG&E and PG&E Corp. were at all times comprised of the same exact individuals, with the sole exception of Defendant Johns, who currently only serves on the Board of PG&E. Thus, current Board members and Defendants Chew, Herringer, Kimmel, Meserve, Miller, Parra, Williams, and Rambo, all of whom were directors of both PG&E and PG&E Corp. at the time, directly hired and supervised Defendants Hayes and Geisha Williams.

1 informed of the Company's numerous safety violations or consciously or recklessly
2 violated their duty to stay informed about the core business of the Company. From
3 2004 to 2009, PG&E was responsible for 59% of the 410 "probable violations" of federal
4 or state pipeline-safety rules and regulations CPUC regulators identified during that
5 period, despite the fact that it operated only 41% of the state's pipelines. Also during
6 this period, PG&E was responsible for more "reportable incidents" than any other
7 company in the country. Included in that total are nine explosions that together
8 injured or killed at least sixteen people. Further, PG&E's own survey conducted in
9 2007 identified leaks and other problems in twenty-eight of thirty-two residential
10 areas that it sampled. Included in those areas is the Peninsula area, where San Bruno
11 is located. All four of the residential distribution lines PG&E examined on the
12 Peninsula had leaks. PG&E's November 2009 report failed to identify the cause of
13 leaks that the Company's own records identified as a defective longitudinal seam weld.
14 The San Bruno Incident was ultimately found to have been caused by the failure of a
15 longitudinal seam weld. As shown above, the failure to follow safety regulations
16 imposed by the PHMSA and CPUC has been sustained and systematic at PG&E.
17 Despite this knowledge, defendants Chew, Cox, Herringer, Parra, Kimmel, Meserve,
18 Rambo, and Williams failed to act to correct the Company's numerous safety issues,
19 resulting in the Company being forced to pay well over \$2.2 billion in damages and
20 fines to-date, being indicted, and exposed to hundreds of millions of additional fines
21 and penalties in the pending criminal case set to commence March 22, 2106. Such a
22 decision could not have been an action taken in good faith and is accordingly not
23 protected by the business judgment rule. Furthermore, defendants Chew, Herringer,
24 Kimmel, Meserve, Rambo, Parra, and Williams's conscious failure to act in the face of
25 the overwhelming number of warnings is a breach of their duties of loyalty, candor,
26 and good faith, which is non-indemnifiable and thus subjects them to a substantial

27 ///

28 ///

1 likelihood of liability.²⁷ Therefore, demand is excused.

2 342. Moreover, Defendants Cox, Herringer, Meserve, and Rambo all served on
3 the Board prior to the San Bruno explosion, and were made aware between 2006 and
4 2010 of major maintenance problems with PG&E's gas distribution network, including
5 a very high volume of gas leaks, massive recordkeeping deficiencies, employees who
6 were frustrated that their safety concerns were unaddressed, and insufficient funding
7 for inspections and maintenance. The Enterprise Risk Management Program
8 provided regular communications to such directors identifying potentially catastrophic
9 risks. Investigations and reviews were provided in Board packages. Nevertheless,
10 such directors made constant budget cuts at PG&E for maintaining pipeline
11 infrastructure, even though sufficient funds existed to fix these problems. The routine
12 reduction of budgets for maintenance of gas transmission and distribution lines at a
13 time when the Company was facing an aging infrastructure constituted bad faith.

14 343. Moreover, in 2009, PG&E charged its customers \$5 million to fix the San
15 Bruno pipeline. The Board of Directors, however, acquiesced in the Company's
16 decision to delay the repairs, citing other priorities. The same year, however, the
17 Board approved \$5 million in executive bonuses. This constituted disloyal and self-
18 dealing conduct by the Board, as well as bad faith.

19 344. In addition, from 2008 to 2010, the Board of Directors approved decisions
20 at PG&E to reduce compliance and other Integrity Management expenses by
21 consciously deciding to defer projects, in particular by deferring or downgrading
22 assessment methods to inadequate and less costly techniques. Moreover, the Board

23 _____
24 ²⁷ Both PG&E and PG&E Corp. are California corporations. California has many
25 more restrictions on indemnification and exculpation of officers and directors of California
26 corporations than does Delaware. California prohibits exculpation of directors and officers
27 for acts or omissions that involve the absence of good faith, for acts or omissions that
28 demonstrate a reckless disregard of duty to the corporation or its shareholders in
circumstances in which the officer or director was aware, or should have been aware, of a
risk of serious injury to the corporation or its shareholders, and for acts or omissions that
constitute an unexcused pattern of inattention that amounts to abdication of duty.

1 caused PG&E to cease preparing metrics, goals, or annual reports for its gas
2 transmission pipeline Risk Management Program. The Overland CPUC review
3 concluded that risk management continued to be a separate program “in name only
4 after 2004.”

5 345. In 2008, the Board approved the slashing of approved budgets for
6 Integrity Management by nearly 50% from what was requested in 2008 for compliance
7 and integrity activities, and a review provided to the Company’s Directors at the time
8 (Darbee, Andrews, Cox, Herringer, Kimmel, Meserve, Johns, Miller, Rambo and
9 Williams) noted that “***expected flat funding in 2009 and 2010 will drive the***
10 ***program into non-compliance in 2012.***” Despite having actual knowledge of these
11 facts, such Defendants took no action to improve PG&E’s governance and compliance,
12 thus abdicating their duties.

13 346. The Board continued to approve budget cuts in 2009 and 2010. The
14 Board was advised that actual funding in 2008 for compliance and safety was 35%
15 below the initial request and 16% below “minimum funding to achieve 2012
16 compliance.” PG&E’s maintenance budget was 47% below the initial request and 25%
17 below the recommended minimum level.

18 347. The Board was advised in 2009 that Integrity Management budget cuts
19 for that year resulted in deferring or eliminating replacement of over 44 miles of gas
20 transmission pipelines in high consequence areas. PG&E also deferred 41 miles of
21 integrity management assessments of gas transmission pipelines.

22 348. In 2010, the Board approved a budget that was reduced for the third
23 straight year and set \$6.7 million below already-constrained 2009 levels.

24 349. In 2010, the Board was aware that PG&E had consistently spent less on
25 safety and maintenance than what it represented to the CPUC was necessary. A
26 CPUC report found that, for each year from 1997 to 2007, PG&E spent \$39 million less
27 than the CPUC had authorized for pipeline safety and repairs (and thus more than
28 PG&E had been authorized by CPUC to collect from its customers in rate hikes).

1 *Thus, as of 2007, the Board was aware that PG&E had intentionally spent less money*
2 *for the last ten years on maintenance and operations than it represented to CPUC was*
3 *necessary to ensure that PG&E's pipelines and infrastructure were safe.*

4 350. Moreover, in 2007 the Board was advised that two significant internal
5 audits were performed in response to pervasive employee complaints about work
6 practices and staffing levels, and the Board was also advised of the results of the
7 audits. One audit was performed in the North Bay and North Coast Divisions, and the
8 second in Marin County. The internal audits discovered critical deficiencies in leak
9 survey and maintenance practices. PG&E's follow-up investigations demonstrated the
10 deficiencies were pervasive throughout its system.

11 351. The Audit Committee of the Board is responsible by its Charter for,
12 among other things: reviewing the adequacy of internal controls, external and internal
13 auditing programs, business ethics, and compliance with laws, regulations, and
14 policies that may have a material impact on the consolidated financial statements. The
15 Audit Committees of PG&E is composed of defendants Andrews, Chew, Herringer, and
16 Williams. Defendant Andrews has served as a member of the Audit Committee since
17 2003. Defendant Chew has served as a member of the Audit Committee since 2009.
18 Defendant Herringer has served as a member of the Audit Committee since 2006.
19 Defendant Williams is also Chairman of the Audit Committee and has been since at
20 least March 2005 and a member of the committee since March 2003. These defendants
21 were responsible as members of the Audit Committee for ensuring that PG&E's
22 internal controls were adequate and that the Company was in compliance with CPUC
23 rules and regulations. The significant safety violations alleged herein were so
24 pervasive that they could not have been the result of an isolated failure of oversight.
25 Indeed, the wrongdoing in question is strongly suggestive of a corporate culture that
26 regularly, consciously ignores sustained and systematic red flags. In light of the
27 number, duration, and severity of the violations, as well as the responsibilities
28 outlined in the Audit Committee Charter, the facts compel the conclusion that the

1 Audit Committee members had to have known about the frequency and extent of the
2 safety violations in question. Notwithstanding this knowledge, the Audit Committee
3 members have failed to take steps to assure and/or improve PG&E's compliance
4 record. Furthermore, the Audit Committee members' conscious failure to act in the
5 face of the overwhelming number of warnings is a breach of their duty of loyalty,
6 which subjects them to a substantial likelihood of liability. Therefore, demand is
7 excused.

8 352. The Compensation Committee²⁸ under its Charter is responsible for
9 reviewing and recommending to the independent members of the Board the salary and
10 other compensation of the CEO. Specifically, the 2007 Compensation Committee
11 Charter provides that it is the responsibility of the Compensation Committee to review
12 and, as applicable, approve: (i) executive compensation and benefits plans and
13 arrangements; (ii) short-term incentive plans that include officers; (iii) tax-qualified
14 pension plans; and (iv) equity-based plans for employees. The Compensation
15 Committee is currently comprised of defendants Cox, Rambo, and Williams.
16 Defendant Rambo has served on the Compensation Committee since 2005. Defendant
17 Williams has served on the Compensation Committee since 2005. Defendant Cox is
18 also Chairman of the Compensations Committee and has been since at least 2005 and
19 a member of the committee since at least 2003.²⁹ As members of the Compensation
20 Committee, these defendants are responsible for reviewing and recommending the
21 compensation of the Company's CEO. Non-defendant Earley is PG&E's CEO,
22 President, Chairman of the Board, and director and has been since September 2011.

23
24 ²⁸ This committee is formerly known as the Nominating, Compensation, and
25 Governance Committee. Prior to January 1, 2008, that committee performed the duties of
26 the current Compensation Committee and the current Nominating and Governance
Committee.

27 ²⁹ Cox did not serve as Chairman or a member of the Compensation Committee
28 from May 1 2011 to September 12, 2011, when he served as interim Chairman of the
Board, CEO, and President of PG&E.

1 Pursuant to his employment with PG&E, he has received and continues to receive
2 substantial monetary compensation and other benefits as alleged above. Accordingly,
3 Earley lacks independence from defendants Cox, Rambo, and Williams, members of
4 PG&E's Compensation Committee, all of which face a substantial likelihood of
5 liability. This lack of independence renders non-defendant Earley incapable of
6 impartially considering a demand to commence and vigorously prosecute this action.
7 Therefore, demand is excused.

8 353. The Finance Committee, under its Charter, is responsible for advising
9 and assisting the Board with respect to strategic plans and initiatives. Specifically, the
10 Charter provides that the Finance Committee is responsible for presenting for the
11 Board's review and concurrence: (i) a multi-year outlook for PG&E and its subsidiaries
12 that incorporates, among other things, key current and emerging issues, strategic
13 initiatives, risk factors, and projected financial results; and (ii) an annual financial
14 performance plan for operating expense and capital spending budgets that reflect the
15 first year of the approved multi-year outlook. The Finance Committee is currently
16 composed of defendants Cox, Kimmel, Williams, and Rambo. Defendant Cox has
17 served on the Finance Committee since 2004. Defendant Kimmel has served on the
18 Finance Committee since 2009. Defendant Williams has served on the Finance
19 Committee since at least 2003. Defendant Rambo is also Chairman of the Finance
20 Committee and has been since 2008 and a member of the committee since 2004. As
21 members of the Finance Committee, defendants Cox, Kimmel, Rambo, and Williams
22 were responsible for reviewing and approving the Company's operating expense and
23 capital spending budgets which severely curtailed spending on safety and IMP
24 implementation. Defendants Cox, Rambo, and Williams were also members of the
25 Compensation Committee. As members of the Compensation Committee, defendants
26 Cox, Rambo, and Williams were responsible for reviewing and recommending the
27 compensation of the Company's executive officers. Due to their memberships on the
28 Finance and Compensation Committees, defendants Cox, Rambo, and Williams knew

1 that they were approving lavish compensation for the Company's executives at the
2 same time that they were approving budgets that curtailed spending on safety issues,
3 even though rate increases were specifically approved for that purpose. Such a
4 decision could not have been an action taken in good faith and is accordingly not
5 protected by the business judgment rule. Therefore, demand is excused.

6 354. In September 2007, a report was provided to the Finance Committee
7 advising the directors that PG&E had inadequate gas and electric system safety
8 controls, and that these deficiencies had led to accidents. The report also warned the
9 directors that "PG&E continues to experience potentially catastrophic equipment
10 failures where the inability to analyze and trend historical patterns or to review the
11 maintenance history of equipment has been identified as a contributing factor."

12 355. In order to address these risks, new initiatives were being considered,
13 including the establishment of an "asset registry to capture information about the
14 design, maintenance, and failure of gas and electric T&D equipment," improvements
15 in program implementation; improvements in collecting and maintaining operational
16 data in an accessible manner; and the implementation of a gas distribution system
17 integrity program to "assess threats to the distribution system, providing a basis for
18 appropriate system-wide inspection and mitigation measures to be taken in order to
19 address those threats." ***Yet the Finance Committee members never ensured that***
20 ***these new measures were effectively implemented***, thus breaching their duties of
21 good faith and loyalty.

22 356. Despite the Individual Defendants having knowledge of the claims and
23 causes of action raised by the plaintiff, the current Board has failed and refused to
24 seek recover for PG&E for any of the wrongdoing alleged by plaintiff herein.

25 357. PG&E has been and will continue to be exposed to significant losses due
26 to the wrongdoing complained of herein, yet the Individual Defendants and current
27 Board have not filed any lawsuits against themselves or others who were responsible
28 for that wrongful conduct to attempt to recover for PG&E any part of the damages

1 PG&E suffered and will suffer thereby.

2 **XI. CAUSES OF ACTION**

3 **COUNT I**

4 **Breach of the Fiduciary Duty of Loyalty – Self Dealing** 5 **(Against the Individual Defendants)**

6 358. Plaintiff incorporates by reference and realleges each and every
7 allegation set forth above, as though fully set forth herein.

8 359. This cause of action is brought against the Individual Defendants for
9 breach of the fiduciary duty of loyalty based on (a) breaching their duty of candor; and
10 (b) self-dealing transactions.

11 360. The Individual Defendants owed the Company the fiduciary obligation of
12 loyalty, which mandates that the best interests of the corporation and its shareholders
13 take precedence over any interest possessed by a director, officer, or controlling
14 shareholder and not shared by the stockholders generally. A breach of the duty of
15 candor constitutes a breach of the duty of loyalty since fiduciaries are not acting
16 loyally to the company when they fail to tell the truth.

17 361. The duty of loyalty encompasses an obligation to act in good faith. A
18 director, officer, or other corporate fiduciary cannot act loyally toward the Company
19 unless he or she believes in good faith that his or her actions are in the Company's
20 best interests.

21 362. A breach of the duty of loyalty can arise from either (a) a breach of the
22 duty of candor or (b) self-dealing transactions, in which a fiduciary is involved in
23 procuring for himself or herself a corporate benefit not available to the stockholders
24 generally.

25 363. The Individual Defendants violated and breached their fiduciary duty of
26 loyalty by breaching their duty of candor and/or by engaging in acts of self-dealing on
27 terms that were not entirely fair to the Company.

28 364. As described in detail above, the Individual Defendants failed to disclose
all truthful and material information about the Company's pipeline safety to the

1 public, the SEC, and federal and state regulators; caused the Company to file a false
 2 and misleading 2015 Proxy that urged shareholders to vote against a shareholder
 3 proposal calling for the separation of the roles of Chairman and CEO, while making
 4 false statements about the alleged lack of need for such proposal due to the Company's
 5 allegedly strong corporate governance practices; caused the Company to pay
 6 themselves substantial compensation and bonuses at the same time they caused the
 7 Company to underspend on pipeline safety; caused the Company to engage in
 8 improper *ex parte* communications with the CPUC; and caused the Company to fail to
 9 cooperate with and actually obstruct the NTSB investigation into the San Bruno
 10 explosion, as a result of which PG&E was forced to pay a \$1.6 billion fine, was
 11 criminally indicted, and faces hundreds of millions of dollars in additional potential
 12 fines and damages.

13 365. As a direct and proximate result of the Individual Defendants' actions
 14 and breaches of their fiduciary obligations, the Company has suffered significant
 15 damages, as detailed above.

16 366. By virtue of the foregoing, the Individual Defendants are liable to the
 17 Company for breaching their fiduciary duty of loyalty.

18 367. Plaintiff, on behalf of PG&E, has no adequate remedy at law.

19 **COUNT II**

20 **Breach of the Fiduciary Duty of Loyalty – Lack of Good Faith** 21 **(Against All Individual Defendants)**

22 368. Plaintiff realleges and incorporates by reference the allegations contained
 23 above as though fully set forth herein.

24 369. This cause of action is brought against the Individual Defendants for
 25 breach of the fiduciary duty of loyalty based on a failure to act in good faith.

26 370. Defendants owed the Company the fiduciary duty of loyalty, which
 27 required them at all times to act in good faith and in the Company's best interests.

28 371. These Defendants could not have acted in good faith if, for example, they
 intentionally acted with a purpose other than that of advancing the Company's best

1 interests, acted with an intent to violate applicable law, or demonstrated a conscious
2 disregard for their duties.

3 372. Defendants breached their fiduciary duty of loyalty and their obligation
4 to act at all times in good faith.

5 373. Defendants knowingly participated in improper activities relating to the
6 Company's pipeline safety issues and federal and state investigations as described in
7 detail above.

8 374. Alternatively, the Individual Defendants acted with conscious disregard
9 for whether their conduct in connection with these activities and with the other
10 activities described in this Complaint was in the Company's best interests and was
11 appropriate under positive law and the Company's policies.

12 375. As a direct and proximate result of these Defendants' actions and
13 breaches of their fiduciary obligations, the Company has suffered significant damages,
14 as detailed above.

15 376. By virtue of the foregoing, Defendants are liable to the Company for
16 breaching their fiduciary duty of loyalty and for failing to act at all times in good faith
17 and in the Company's best interests.

18 **COUNT III**
19 **Breach of the Fiduciary Duty of Care**
20 **(Against All Individual Defendants)**

21 377. Plaintiff realleges and incorporates by reference the allegations contained
22 above as though fully set forth herein.

23 378. This cause of action is brought against the Individual Defendants for
24 breach of the fiduciary duty of care.

25 379. The Individual Defendants owed the Company the fiduciary obligation to
26 act at all times with due care for the Company's best interests in exercising their
27 responsibilities on behalf of the Company.

28 380. The Individual Defendants violated and breached their fiduciary duty of

1 care through conduct that amounts to at least gross negligence.

2 381. In fact, the Defendants' conduct fell so far below the requirements of the
3 duty of care as to constitute a lack of good faith.

4 382. As described in detail above, the Individual Defendants failed to disclose
5 all truthful and material information about the Company's pipeline safety to the
6 public, the SEC, and federal and state regulators; caused the Company to underspend
7 on pipeline safety; caused the Company to engage in improper ex parte
8 communications with the CPUC; and caused the Company to fail to cooperate with
9 and actually obstruct the NTSB investigation into the San Bruno explosion.

10 383. These Defendants knew, or were grossly negligent in not knowing, that
11 the conduct described throughout this Complaint was unlawful.

12 384. These Defendants' actions were outside the bounds of reason and
13 demonstrated a reckless indifference to the whole body of stockholders.

14 385. As a direct and proximate result of these Defendants' actions and their
15 failure to fulfill their fiduciary duty of care, the Company has suffered significant
16 damages, as detailed above.

17 386. By virtue of the foregoing, the Individual Defendants are liable to the
18 Company for breaching their fiduciary duty of care.

19 387. Plaintiff, on behalf of the Company, has no adequate remedy at law.

20 **COUNT IV**

21 **Against all Individual Defendants for Waste of Corporate Assets**

22 388. Plaintiff incorporates by reference and realleges each and every
23 allegation contained above, as though fully set forth herein.

24 389. As a result of the Individual Defendants' wrongdoing, the Individual
25 Defendants have caused PG&E to waste corporate assets: (i) by paying undeserved
26 incentive compensation to certain of its executive officers; (ii) by incurring billions of
27 dollars in fines due to the safety violations; and (ii) by incurring billions of dollars of
28 legal liability and/or legal costs to defend defendants' unlawful actions.

390. As a result of the waste of corporate assets, the Individual Defendants are liable to the Company.

391. Plaintiff, on behalf of PG&E, has no adequate remedy at law.

COUNT V
Against the Individual Defendants for Unjust Enrichment

392. Plaintiff incorporates by reference and realleges each and every allegation contained above, as though fully set forth herein.

393. By their wrongful acts and omissions, the Individual Defendants were unjustly enriched at the expense of and to the detriment of PG&E. The Individual Defendants were unjustly enriched as a result of the compensation and director remuneration they received while breaching fiduciary duties owed to PG&E.

394. Plaintiff, as a shareholder and representative of PG&E, seeks restitution from these defendants, and each of them, and seeks an order of this Court disgorging all profits, benefits and other compensation obtained by these defendants, and each of them, from their wrongful conduct and fiduciary breaches.

395. Plaintiff, on behalf of PG&E, has no adequate remedy at law.

COUNT VI
For Breach of the Duty of Honest Services
(Against Defendants Geisha J. Williams, William D. Hayes, Peter A. Darbee, Anthony F. Earley, Jr., Kent M. Harvey, Christopher P. Johns, Dinyar B. Mistry, C. Lee Cox, and Nick Stavropoulos)

396. Plaintiff incorporates by reference and realleges each and every allegation contained above, as though fully set forth herein.

397. This claim is brought derivatively on behalf of the Company against Defendants Geisha J. Williams, William D. Hayes, Peter A. Darbee, Anthony F. Earley, Jr., Kent M. Harvey, Christopher P. Johns, Dinyar B. Mistry, C. Lee Cox, and Nick Stavropoulos for breach of their undivided duty of loyalty to their employer.

398. During at least a portion of the Relevant Period, all Defendants were employees of the Company.

1 assisted each other in breach of their respective duties.

2 405. During all times relevant hereto, the Individual Defendants collectively
3 and individually initiated a course of conduct that was designed to and did: (i) conceal
4 the fact that Company was not spending necessary and available funds on required
5 pipeline safety efforts; (ii) conceal the fact that the Company was not recording and
6 maintaining adequate books and records regarding pipeline operation and safety, as
7 required by federal and state laws and regulations; (iii) maintain the Individual
8 Defendants' executive and directorial positions at the Company and the profits, power
9 and prestige that the Individual Defendants enjoyed as a result of these positions; (iv)
10 deceive the shareholders of the Company regarding the Company's compliance with
11 federal and state laws and regulations regarding pipeline safety; (v) take actions to
12 deceive the NTSB and obstruct its investigation into the 2010 San Bruno explosion
13 which killed eight people; and (vi) breach their duty of candor, good faith, and loyalty
14 in communications to shareholders, including the 2015 Proxy in an effort to defeat a
15 shareholder proposal calling for the separation of the roles of Chairman and CEO in
16 order to provide independent oversight of management regarding safety issues. In
17 furtherance of this plan, conspiracy and course of conduct, the Individual Defendants
18 collectively and individually took the actions set forth herein.

19 406. The Individual Defendants engaged in a conspiracy, common enterprise
20 and/or common course of conduct. During this time the Individual Defendants caused
21 the Company to conceal the true facts, as alleged herein.

22 407. The purpose and effect of the conspiracy, common enterprise, and/or
23 common course of conduct by and among the Individual Defendants was, among other
24 things, to benefit themselves at the expense of the Company by granting themselves
25 excessive and inequitable compensation, derived by causing the Company to
26 underspend on pipeline safety issues.

27 408. The Individual Defendants accomplished their conspiracy, common
28 enterprise and/or common course of conduct by causing the Company to violate federal

1 and state laws and regulations governing the Company's operations. Because the
2 actions described herein occurred under the authority of the Board, each of the
3 Individual Defendants was a direct, necessary and substantial participant in the
4 conspiracy, common enterprise and/or common course of conduct complained of herein.

5 409. Each of the Individual Defendants aided and abetted and rendered
6 substantial assistance in the wrongs complained of herein. In taking such actions to
7 substantially assist the commission of the wrongdoing complained of herein, each
8 Individual Defendant acted with knowledge of the primary wrongdoing, substantially
9 assisted the accomplishment of that wrongdoing, and was aware of his or her overall
10 contribution to and furtherance of the wrongdoing.

11 410. As a direct and proximate result of the conspiracy, common enterprise
12 and/or common course of conduct by and among the Individual Defendants, the
13 Company has sustained significant damages. As a result of the misconduct alleged
14 herein, the Individual Defendants are liable to the Company.

15 411. Plaintiff on behalf of the Company has no adequate remedy at law.

16 **COUNT VIII**
17 **Aiding and Abetting Breaches of Fiduciary Duties**
18 **(Against All Individual Defendants)**

19 412. Plaintiff realleges and incorporates by reference the allegations contained
20 above as though fully set forth herein.

21 413. This cause of action is brought against all Individual Defendants for
22 aiding and abetting breaches of fiduciary duty.

23 414. As alleged above, all Individual Defendants are current or former officers
24 and/or directors of PG&E and/or PG&E Corp. As such, all Individual Defendants owed
25 fiduciary duties of good faith, loyalty, candor and care to the Company. Through the
26 conduct alleged herein, Defendants breached their fiduciary duties to the Company.
27 In the alternative, the conduct of all Defendants, whether or not it constituted an
28 independent violation of fiduciary duty, constituted aiding and abetting the breach of

1 fiduciary duties.

2 415. All Defendants knew that the other Defendants' conduct violated those
3 Defendants' fiduciary duties to the Company.

4 416. As alleged above, Defendants substantially aided or encouraged the other
5 Defendants to breach their fiduciary duties to PG&E. Such aid and encouragement
6 included, without limitation, these Defendants' participation in knowing or reckless
7 violation of federal and state pipeline safety rules and regulations, knowing or reckless
8 disregard of the duties of candor, good faith, loyalty, and care, their participation in
9 falsifying Company records relating to pipeline safety and the NTSB investigation,
10 and/or active participation in the obstruction of the NTSB investigation.

11 417. As alleged above, the Company was harmed by the other Defendants'
12 breaches of their fiduciary duties.

13 418. By reason of the foregoing, the Company has sustained and will continue
14 to sustain damages as described in greater detail above.

15 **XII. PRAYER FOR RELIEF**

16 WHEREFORE, plaintiff demands judgment against defendants as follows:

17 A. Against all of the Individual Defendants and in favor of the Company for
18 the amount of damages sustained by the Company as a result of the Individual
19 Defendants' breaches of fiduciary duties, waste of corporate assets, and unjust
20 enrichment;

21 B. Directing the Company to take all necessary actions to reform and
22 improve its corporate governance principles and internal policies to comply with
23 applicable laws and to protect the Company and its shareholders from a repeat of the
24 damaging events described herein, including, but not limited to, putting forward for
25 shareholder vote, resolutions for amendments to the Company's By-Laws or Articles of
26 Incorporation and taking such other action as may be necessary to place before
27 shareholders for a vote the following Corporate Governance Policies:

1 1. a proposal to require the Company to elect an independent
2 Chairman of the Board and/or separate the roles of Chairman and CEO;

3 2. a proposal to strengthen the Company's policies and procedures
4 regarding cooperation with federal and state investigations, specifically including any
5 investigation by the NTSB and CPUC and ensure that the Company does not impede
6 or obstruct in any way any governmental investigations regarding the Company's
7 operations;

8 3. a proposal to strengthen PG&E's internal controls over regulatory
9 compliance and specifically with respect to its required pipeline inspection and
10 remediation practices;

11 4. a proposal to strengthen the Board's supervision of operations and
12 develop and implement procedures for greater shareholder input into the policies and
13 guidelines of the Board; and

14 5. a provision to permit the shareholders of the Company to nominate
15 at least three candidates for election to the Board;

16 C. Extraordinary equitable and/or injunctive relief as permitted by law,
17 equity and state statutory provisions sued hereunder, including attaching,
18 impounding, imposing a constructive trust on or otherwise restricting defendants'
19 assets so as to assure that plaintiff on behalf of the Company has an effective remedy;

20 D. Awarding to the Company restitution from the defendants, and each of
21 them, and ordering disgorgement of all profits, benefits, and other compensation
22 unjustly earned by the defendants;

23 E. Awarding to plaintiff reasonable attorneys' fees, consultant and expert
24 fees, costs and expenses; and

25 F. Granting such other and further relief as the Court deems just and
26 proper.

27 ///

28 ///

XIII. JURY DEMAND

Plaintiff demands a trial by jury.

DATED: February 27, 2016

Respectfully submitted,

BOTTINI & BOTTINI, INC.

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s/ Francis A. Bottini, Jr.

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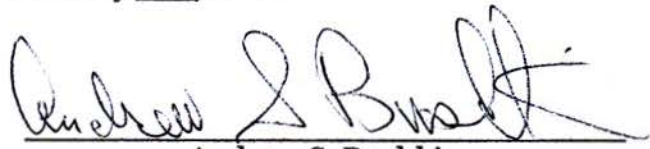
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Attorneys for Plaintiff

VERIFICATION

I, Andrew S. Bushkin, verify that I am a shareholder of Nominal Defendant PG&E Corporation ("PG&E Corp."), and that I have continuously owned PG&E Corp. stock at all relevant times. I have reviewed the allegations in this Verified Shareholder Derivative Complaint (the "Complaint"). As to those allegations of which I have personal knowledge, I believe them to be true; as to those allegations of which I lack personal knowledge, I rely upon my counsel and counsel's investigation, and believe them to be true. Having received a copy of the Complaint and reviewed it with counsel, I authorize its filing.

I declare under penalty of perjury under the laws of the United States that the foregoing is true and correct. Executed on February 23, 2016.



Andrew S. Bushkin